FINANCIAL TIMES

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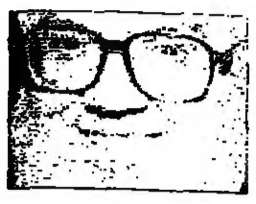

New deal for workers
Changing the International Labour Organisation
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Legal reform
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WORLD NEWS

European Union closer to deal on regional funding

The basis of a deal began to emerge on European Union regional funding ahead of the Berlin summit today. Spain, which has led a campaign by poorer EU members to maintain funding, made clear its readiness to compromise on demands for capping the funds. **Page 16; Editorial comment, Page 15**

'Con artists' favour the internet
The internet is now a favourite haven for "con artists", a US Securities and Exchange Commission official said, adding that "cyber-scams" benefitted from the medium's wide reach and anonymity. **US, Page 6**

Experts called in to probe EC
The European Parliament has asked independent experts to complete a wide-ranging probe into the culture and working methods of the European Commission. **Europe, Page 3**

Paraguayan vice-president killed
Paraguayan authorities closed the country's borders and stopped flights into the country after gunmen shot dead vice-president Luis Maria Argana. **Americas, Page 6**

Concessions for German industry
Werner Müller, Germany's acting finance minister, put Bonn's relations with business on a new footing by signalling concessions to industry while defending the government's right to pursue "social democratic" policies. **Europe, Page 3**

Moscow to 'compromise' with IMF
A Russian official said the government was prepared to compromise in "all spheres under discussion" to clinch an agreement with the International Monetary Fund. **Europe, Page 2**

Opec agrees to cut oil output
The Organisation of Petroleum Exporting Countries agreed further cuts in oil output in a bid to support prices. **International, Page 8; Commodities, Page 26**

Abrupt end to Anwar trial
The trial of Anwar Ibrahim, Malaysia's sacked deputy prime minister, came to an abrupt end when the defence refused to sum up its case. **Asia-Pacific, Page 4**

Steel bill drags in US Senate
A bill to impose quotas on foreign steel imports, passed by the US House of Representatives, is facing tougher going in the Senate where one senator called it a "major move towards protectionism". **Trade, Page 7**

EBRD may join Czech sell-offs
The European Bank for Reconstruction and Development is considering participation in the Czech government's plans to restructure and sell off some of the country's troubled private companies. **Europe, Page 3**

Dumas takes 'temporary leave'
Roland Dumas, head of France's constitutional court, has taken a "temporary" leave of absence in the wake of pressure for his resignation. **Europe, Page 3**

UN warns of tuberculosis dangers
Incurable strains of tuberculosis will become more common unless action is taken to control the disease, the United Nations health agency warned.

BUSINESS NEWS

French banks battle to save merger deal

Société Generale and Paribas, the French banks fighting to save an agreed merger, are expected to raise the stakes in their battle with rival Banque Nationale de Paris by claiming that gains from their merger would be higher than thought. **Companies and Markets, Page 17**

Deutsche Bank's sale of the Australian fund management arm of Bankers Trust, the US investment bank, could raise up to A$2.5bn (US$1.6bn). **Asia-Pacific companies, Page 19**

Volvo, the Swedish automotive group, has cut production of its flagship S80 cars by 25 per cent because of a shortage of seats. **European companies, Page 20**

German engineering group Linde announced a share buyback of up to 10 per cent of the group's share capital. **European companies, Page 20**

Telia and Telenor, the Swedish and Norwegian state-run telephone companies, face growing difficulties in plans to merge and create a Nordic telecommunications group with an estimated market value of SKr300bn ($36.6bn). **European companies, Page 20**

Audi, the premium brand of Germany's Volkswagen carmaker, issued a profits warning saying it would be difficult to beat its 1998 earnings. **European companies, Page 20**

Singapore Airlines is expected to announce it is buying a 50 per cent stake in Ansett Australia, the country's second largest airline, for about A$500m ($312m) from News Corporation, the media group. **Companies and Markets, Page 17**

Tradepoint, the small UK stock exchange, became the first foreign exchange to be given the go ahead to establish itself in the US. **Companies and Markets, Page 17**

The Hong Kong government has reportedly chosen investment banks ING Barings, Goldman Sachs and Jardine Fleming to help it dispose of a huge share portfolio. **Asia-Pacific news, Page 5**

US companies, the largest investors in Russia, have lost an estimated $500m since the rouble collapsed. **European news, Page 2**

VLSI Technology, the Silicon Valley chipmaker that rejected a hostile takeover bid from Philips Electronics of the Netherlands, is to open talks with its suitor. **American companies, Page 21**

Bank of New York is set to become the world's largest global custodian with assets of $5.9bn after agreeing to buy the custody arm of the Royal Bank of Scotland for more than £500m. **American companies, Page 21**

World Equity Markets
The latest trends and data from more than 50 national markets at a glance
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CONFRONTATION WITH MOSCOW LOOMS AS RUSSIAN PRIME MINISTER CALLS OFF PLANNED TRIP TO WASHINGTON

Nato forces poised for air attack on Yugoslavia

By Our International Staff

Nato was last night poised to launch air attacks against Yugoslavia after the failure of diplomatic efforts to persuade Slobodan Milosevic, the Yugoslav president, to accept a peace deal for the Serbian province of Kosovo.

Bill Clinton said: "Nato is now united and is prepared to carry out its warning.

"If President Milosevic is not willing to make peace", the U.S. president added, "we are willing to limit his ability to make war on the Kosovars."

Nato's plans set the stage for confrontation with Moscow. Yevgeny Primakov, Russia's prime minister, called off a planned trip to the US after being briefed by US vice president Al Gore while in the air en route to Washington.

Igor Ivanov, Russian foreign minister, called air strikes "a profound mistake." He said: "If a fire burns in Kosovo, and it follows into Macedonia and Albania and Bosnia-Herzegovina, then another large war in the Balkans would be sparked." Richard Holbrooke, US special envoy, left Belgrade after a final, abortive round of talks with Mr Milosevic. He said this was his bleakest moment in four years of negotiations in the Balkans.

Diplomats and members of the US Congress said they believed Nato action was imminent, though the US embassy in Belgrade was not due to evacuate its last staff until today.

Military experts said Nato would begin with cruise missile strikes against Yugoslavia's air defence systems, but would probably move quickly to missile attacks and bombing raids on military targets in Kosovo in an attempt to halt a Serbian offensive against the province's ethnic Albanian majority.

Thousands of ethnic Albanians poured out of central Kosovo, seeking refuge from advancing Serbian security forces as smoke poured from burning villages. Macedonia denied the refugees access by closing its border to Yugoslav passport holders.

A technician checks a German Tornado aircraft yesterday, part of a Nato force based at San Damiano in Italy Reuters

Tony Blair, UK prime minister, told a sombre British parliament the alliance had "no alternative" but to take military action against Mr Milosevic unless he signed the proposed peace agreement. "We must act: to save thousands of innocent men, women and children from humanitarian catastrophe, from death, barbarism and ethnic cleansing by a brutal dictatorship; to save the stability of the Balkan region, where we know chaos can engulf all of Europe," Mr Blair said. In Belgrade, tens of thousands of men were being mobilised into the army. Some have been dragged out of restaurants by military police.

Serbia's parliament overwhelmingly rejected foreign troops in Kosovo but expressed a willingness to discuss "the scope and character of an international presence." Nato wants to send in a 30,000-strong peacekeeping force, but only to support a peace agreement. Mr Milosevic yesterday sacked the second most powerful figure in the Yugoslav army, Gen Aleksandar Dimitrijevic. Military analysts said he was now surrounded by hardline generals who believed they could eradicate the ethnic Albanian Kosovo Liberation Army within a week.

Reporting by Guy Dinmore in Belgrade, Gerard Baker in Washington and Alexander Nicoll and Andrew Parker in London

ABB and Alstom in $11bn power equipment deal

By William Hall in Brussels and Peter Marsh in London

Two of Europe's engineering giants, the Swiss-Swedish ABB and the Franco-British Alstom, are creating an electricity generating equipment joint venture that, with sales of $11bn a year, will be one of the world's biggest suppliers.

As part of the deal, General Electric of the US, the world's biggest maker of gas-fired power generation systems, has furthered its position in Europe by paying $910m to take over Alstom's activities in this technology. The agreement marks a further consolidation of the world's $60bn a year industry in supplying electricity generation equipment. The sector has been hit by serious over-capacity, worsened by a big drop in demand from south east Asia where finance for new power stations has been severely curtailed by the region's economic crisis.

The new company, ABB Alstom Power, will be based in Brussels and will report in euros. Göran Lindahl, ABB's chief executive, is to be chairman and Claude Darmon, Alstom's deputy chief executive, will be chief executive. It will employ 54,000 people in 100 countries.

Pierre Bilger, Alstom's chief executive, said the new company would be the "European champion in power engineering". It will spend $700m a year on research and development, which should give it a competitive edge.

As a result of the deal, in which Alstom is paying ABB $1.5bn in cash to compensate for the difference in size between the two companies' generator equipment businesses, three companies will control about 80 per cent of the world demand for steam or gas-driven turbines for new power stations, based on order volumes for last year.

The others are Siemens of Germany and GE, which owes its position mainly to its dominance in gas-turbine technology, the fastest growing part of the generation equipment business.

Bob Nardelli, president of GE's power systems division, said he was "elated" that the deal enabled GE to extend its position in Europe. Siemens said the move "followed the logic of the market".

The new venture's sales will put it marginally ahead of those of GE's power systems subsidiary, making it by some definitions the world's biggest supplier of electricity equipment.

In terms of orders won last year for new power projects, GE has retained industry leadership with 39 per cent of the market, according to figures from consultancy Data Monitor. On the basis of these figures, skewed by a sharp rise in US orders last year, Siemens has 25 per cent of the world market and ABB Alstom 15 per cent.

The creation of ABB Alstom still has to be ratified by European Commission competition authorities. Analysts expect the new group to announce large job cuts to reduce overheads. Although executives would not discuss figures, it is believed that between 5 per cent and 10 per cent of jobs in the company could be eliminated.

Observer, Page 15; Lex, Page 16
Power play, Page 18

MediaOne poised to sell mobile interests

By Christopher Price in London

MediaOne, the US telecoms group, and Cable and Wireless are considering the sale of One-2-One, the UK's fourth biggest mobile phone operator, in a move that could realise £11bn ($18bn).

It would be the first time a UK mobile phone company has been put up for sale. It is thought potential buyers could include Deutsche Telekom, Mannesmann Telekom, both of Germany, and the US companies Bell Atlantic and SBC Communications.

People familiar with the situation said MediaOne had earmarked its share in the UK group for disposal following its acquisition by Comcast on Monday, as part of its strategy to concentrate on its cable investments and move away from its wireless interests. This will also include several investments in eastern and central European mobile operations.

MediaOne confirmed that a sale of its One-2-One interests would be considered. It has appointed Lehman Brothers, the US investment bank, to "evaluate the company's strategic alternatives regarding its international wireless operations". However, Charles Lillis, chief executive of MediaOne, said Lehman's would advise on the "disposition" of the stake. "We've decided to find a way to translate that value... to get even further positioned in the broadband world."

One-2-One, the first UK mobile phone operator to offer mass market services, has been owned since its launch in 1993 by MediaOne (then US West) and Cable and Wireless. Control has chiefly rested with C&W although its managing director, Tim Samples, and his predecessor Jan Peters are both from MediaOne.

The group is backed by finance of £2.35bn made up of £645m from the two shareholders and £1.7bn in debt financing. C&W is expected to make a statement today saying it is examining options for One-2-One.

Comcast, a leading US cable television operator part-owned by Microsoft, announced on Monday that it was to buy MediaOne in a $60bn stock and debt deal.

Following completion of the purchase of Tele-Communications Inc by AT&T, it marks a further stage in the consolidation of the network of two-way pipelines providing TV, telephone and internet signals.

Additional reporting by Alan Cane in London, Christopher Parkes in Los Angeles and William Lewis in New York.

WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Av	9,710.96	(-179.55)
NASDAQ Composite	2,336.39	(-59.55)
Europe and Far East		
CAC40	4,079.47	(-117.59)
DAX	4,915.03	(-112.03)
FTSE 100	6,060.5	(-92.3)
FTSE Eurotop 300	1,228.82	(-22.91)
Nikkei	16,019.10	(-359.68)
US Lunchtime RATES		
Federal Funds	4.75%	
3-mth Treas Bills: Yld	4.50%	
Long Bond	95$\frac{5}{16}$	
Yield	5.57%	
OTHER RATES		
UK: 3-mo Interbank	5¼%	(5¼%)
UK: 10 yr Gilt	110.51	(110.74)
Euro Euribor	3.019%	(3.020%)
Germany: 10 yr Bund	98.02	(98.25)
Japan: 10 yr JGB	100.861	(101.056)
NORTH SEA OIL (Argus)		
Brent Dated	$13.80½	(13.356)

GOLD		
New York: Comex		
	$284.4	(284.5)
London:		
	$283.75	(284.45)
DOLLAR		
New York: Lunchtime		
£	1.6363	
€	0.9161	
SFr	1.4585	
Y	117.95	
London:		
£	1.6314	(1.6278)
€	0.9177	(0.9171)
SFr	1.4619	(1.4647)
Y	117.98	(117.93)
Tokyo Close		Y 118.55
EURO (London)		
$	1.0897	(1.0905)
£	0.6680	(0.6699)
Y	128.563	(128.597)
SFr	1.5930	(1.5972)

London · Leeds · Paris · Frankfurt · Stockholm · Milan · Madrid · New York
Chicago · Los Angeles · Tokyo · Hong Kong

Euro-zone target price €2.15 Prices in local currency as shown

Bahrain	Din1.300	Iceland	IKr285	Oman	OR1.75
Belgium	BFr90 (€2.23)	Italy	L3900 (€2.01)	Poland	Zl 10.00
CIS	US$4.00	Jordan	JD1.75	Portugal	Esc320 (€1.60)
Croatia	Kn19.00	Kuwait	KWD0.750	Qatar	QR13.00
Denmark	DKr16.00	Latvia	Ls1.65	South Africa	R15
Estonia	EKr34.00	Lithuania	Lit21.00	Spain	Pta325 (€1.95)
Finland	Fmk13.00 (€2.19)	Lebanon	LP£3.500	Sweden	SKr20.00
France	FFr14.00 (€2.13)	Luxembourg	LFr90 (€2.23)	Switzerland	SFr3.50
Gibraltar	£0.85	Morocco	Dh18.00	Syria	S£80.00
Greece	Dr500	Netherlands	Fl 4.80 (€2.18)	Tunisia	Din2.000
Hungary	Ft380	Norway	NKr19.00	UAE	Dh13.00

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WORLD NEWS
EUROPE

NATO AND KOSOVO PRIMAKOV CANCELS VISIT TO WASHINGTON ■ SERBIA MOBILISES THOUSANDS OF RESERVISTS

Milosevic prepares for last stand

By Guy Dinmore in Belgrade

Slobodan Milosevic, Yugoslav president, yesterday prepared to make Kosovo his last stand in his struggle with the western powers and internal opposition by sacking his head of military intelligence and mobilising thousands of reservists in readiness for war with Nato.

General Aleksandar Dimitrijevic, head of security of the Yugoslav army's general staff, was the latest to be removed by Mr Milosevic in a purge of top officers of suspect loyalty. Gen Dimitrijevic, diplomats said, had been close to General Momcilo Perisic, the armed forces chief of staff sacked in November.

Military analysts said Mr Milosevic was surrounded by hardline generals who believed they could eradicate the ethnic Albanian Kosovo Liberation Army within a week and were ready to risk war with Nato.

Mr Milosevic, diplomats said, appeared to be making the biggest gamble of his 10 years in power by calculating Nato would launch "pin prick" air strikes. Such a scenario would allow him to yield with honour in the eyes of his people and strike a final deal over Kosovo while punishing the KLA.

Tens of thousands of men under the age of 58 have been mobilised to serve in the army across Serbia and Montenegro, the two remaining republics in Yugoslavia. Young men have been dragged out of Belgrade restaurants by military police in what analysts said was an even bigger military mobilisation than in 1991 and 1992, when war erupted in the former Yugoslav republics of Croatia and Bosnia.

Mobile air defence units took up positions around Belgrade's military airport where Serbia's top-line MiG 29 attack-fighters are based.

The Yugoslav army in Montenegro called up reservists and commandeered private vehicles. One feared consequence of Nato air strikes is civil war in the small republic between supporters of Mr Milosevic and the pro-western government led by Milo Djukanovic, president. One hardline opposition leader warned Mr Djukanovic yesterday not to carry out his long declared threat to declare Montenegro's secession.

An emergency session of Serbia's parliament was dominated by attacks on the US and its allies, and on the Kosovo Albanian separatists.

Milan Milutinovic, Serbia's president and a key ally of Mr Milosevic, urged parliament to reject the proposed autonomy deal for Kosovo to be enforced by Nato peacekeepers. "It's crucial we have unity in parliament. If not, we can say goodbye to our future. We should give a clear answer – no foreign troops," he said.

Vojislav Seselj, a former paramilitary leader who heads the ultra-nationalist Radical party, indicated the coalition government would proclaim a state of war.

"There will be no mercy for deserters, those who disseminate panic or spread false news and rumours, or in any way diminish the defence powers of the country. It should be clearly stated there is no backing down or giving up after the first bomb falls," he added.

The few remaining western diplomats shredded documents and prepared to leave the country. Opposition politicians, accused of treachery by the regime for opposing Mr Milosevic, said they feared for their lives and would also try to flee.

A Serb police officer standing guard. Thousands of reservists have been mobilised for war Reuters

Baku detains Russian cargo

By Jeanne Whalen in London and John Thornhill in Moscow

A Russian cargo aeroplane carrying six or seven MiG fighter jets, which were possibly en route to Yugoslavia, has been detained in Azerbaijan.

Azerbaijani customs officials found the jets inside a Ruslan – the world's largest cargo aircraft – when it stopped to refuel in Baku last Friday, said Vafa Goulizade, an adviser to President Heydar Aliyev on foreign policy, in a telephone interview yesterday.

He could not, however, confirm local media reports that 30 pilots and technicians were with the jets or that crew members had said the MiGs were in transit to Yugoslavia. Later, according to the reports, the crew changed their minds and named their destination as North Korea.

"There was a big Ruslan transport plane stopped and a customs check was conducted and on board were found the Russian MiGs – six or seven," Goulizade said. "I do not know the direction [of the flight]."

Supplying arms to Yugoslavia is prohibited by a United Nations embargo. Yevgeny Primakov, Russian prime minister, in Ireland shortly before he cancelled his visit to Washington, said of the warplanes: "We have not broken the sanctions yet."

Russia has criticised the west's threatening stance against Yugoslavia and vowed last month to prevent a Nato attack. Igor Ivanov, Russian foreign minister, said any Nato military action against the Serbs might compel Moscow to ask the UN Security Council to consider ending the arms embargo in the region.

"Talk would then be about aggression and, naturally, any state which is the subject of aggression should have the means for self-defence," he said.

Where the MiG jets came from and why the cargo aircraft stopped in Baku was unclear last night. Azerbaijan is dependent on western oil money and increasingly at odds with Russia, making it an odd place to land fighter jets intended for Russia's Serbian allies.

In Moscow, Vladimir Rakhmanin, a foreign ministry spokesman said the MiGs belonged to Kazakhstan and were being transported on a Russian commercial aeroplane to Bratislava in Slovakia.

The cargo aircraft, owned by the Russian company Polyot, took off from Taldy-Kurgan in Kazakhstan for Bratislava and made a prearranged landing in Baku for technical reasons, Mr Rakhmanin said. However, Karol Sefcik, spokesman for the Slovak foreign ministry, said the government "had no knowledge about any plane bringing arms through Baku to Slovakia".

Diplomatic sources in Baku said the jets could have been in transit to any number of destinations, including Iran or Russian military bases in Armenia. Russia pledged last month to fortify its position in Armenia, Azerbaijan's hostile neighbour.

Kevin Done contributed to this report

Holbrooke's 'two days of intense talks'

The following is a text of a statement by Richard Holbrooke, US Balkans envoy, after a second day of talks with Yugoslav President Slobodan Milosevic ended without success:

"[US] President [Bill] Clinton and Secretary [of State Madeleine] Albright sent our delegation here to Belgrade on a mission of peace at a time of escalating violence in the region.

"We have conducted two days of intense talks with President Milosevic and his associates.

Holbrooke and Milosevic: their talks failed

"We emphasised two things: We sought evidence that there would be a ceasefire of the military operation going on in Kosovo and secondly a readiness to enter and to prompt actions that would lead rapidly to a Nato-led force in Kosovo in accordance with the Rambouillet accords, a force I would stress that was neither pro- or anti- any ethnic group but in favour of peace in the region.

"As we reported to President Clinton and Secretary Albright, commitments were not forthcoming from the Yugoslav authorities on either point. Accordingly we've been instructed to go to Brussels now and report and meet with our Nato allies and then return to Washington."

Responding to a reporter's question whether this was the last diplomatic move in the Kosovo crisis talks, he said:

"Communications are always open even in times of conflict. Ambassador Hill will return to Skopje and the rest of us go to Brussels and Washington. Belgrade has his phone number. Other ambassadors may or may not remain here as they wish.

"The three co-negotiators of Rambouillet, the European Union negotiator Ambassador Petritsch, the Russian negotiator and I and ambassador Hill met today and they have agreed to keep in close touch and the Yugoslav authorities are always welcome to contact us and I'm sure we'll remain in contact with them."

On the subject of air strikes, Mr Holbrooke said: "I will leave the consequences of what I've announced to other people to deal with."

In an interview with CNN, Mr Holbrooke said it was not his job to say whether military action was imminent. Asked if President Milosevic understood the consequences, he said: "I can only say that the reason we stayed and saw him again this morning was precisely to make sure, under instructions from the President and Madeleine Albright, that the answer to that question was yes. He assured me, as I left this morning, that he fully understood the implications of what our government and our Nato allies were saying, and the potential consequences thereof."

Asked if he would return for more talks, Mr Holbrooke said: "All I can say is that the President and the Secretary have asked us to meet with Nato and then return to the United States." He said: "I have spent many hours with him but I would not say that I know him in the sense that I can see inside his mind. He... makes decisions on what he thinks is best for his country, he has chosen a path whose consequences he fully understands."

Primakov aborts visit to Washington

By Gerard Baker in Washington

In a dramatic indication that Nato military action against Serbia was imminent, Yevgeny Primakov, the Russian prime minister, yesterday aborted his long-scheduled trip to Washington as his aeroplane was in mid-air over the Atlantic.

US officials said Mr Primakov had postponed his visit after telephone discussions from his aircraft with Al Gore, US vice-president. The White House said Mr Gore told the Russian premier he fully understood the decision and looked forward to the rescheduled meeting.

Mr Primakov left Moscow early yesterday, as planned, before the failure of the last-minute mission by Richard Holbrooke, US special envoy, to persuade Slobodan Milosevic, Yugoslav president, to agree to the Rambouillet peace accords and stop the fighting in Kosovo.

He had been scheduled to hold three days of wide-ranging discussions with Bill Clinton, president, Mr Gore, Robert Rubin, Treasury secretary, Alan Greenspan, Federal Reserve chairman, and Michel Camdessus, the managing director of the International Monetary Fund among others.

The meetings were to have been the latest in the series of bilateral committee meetings led by Mr Gore and Mr Primakov, but their significance was elevated by the continuing economic crisis in Russia and the tensions in the Balkans.

But with US-led air strikes apparently imminent following the failure of Mr Holbrooke's mission, it was clear the Russian prime minister did not want to be on US soil while military action against its ally was taking place. Joseph Lockhart, White House spokesman, tried to play down the diplomatic embarrassment of the postponed visit and insisted US-Russian relations would not be harmed by Mr Primakov's decision.

"We have a strong bilateral relationship with the Russians. We are engaged with them on a series series of issues – economic reform, non-proliferation around the world," he told reporters. In the past, he added, "we have found a way with the Russians to work through disagreements and to focus our attention on where we work together".

However, the 11th hour postponement came at a time when US-Russian relations are at their chilliest since the end of the cold war. Strains have included disputes over the sale of civilian nuclear technology to Iran and differences over policy towards Iraq. In addition, Moscow has been upset by US plans unilaterally to modify the 1972 Anti-Ballistic Missile treaty.

NEWS DIGEST

TURKISH POLITICS

Ecevit moves to end parliamentary session

Bülent Ecevit, Turkish prime minister, moved yesterday to end a parliamentary session called by an Islamist-led alliance in an unsuccessful bid to topple him and delay April polls.

The Islamist Virtue party, which used the rebellion to try to force a repeal of bans on leading Islamists, said it would fight moves announced on Monday to ban it. Recai Kutan, the head of Virtue, accused the state prosecutor of interfering in elections. Elsewhere, the feeling was one of relief over what appeared to be the end of a chaotic 10-day parliamentary session.

Political sources said key secularist parties, including Mr Ecevit's Democratic Left party (DSP), were moving to close the extraordinary parliamentary session summoned by a peculiar alliance of Islamists and rebel secularist deputies. On Monday, Mr Ecevit easily survived a censure vote that would have toppled him and, in itself, thrown the polls into doubt. The parliamentary speaker, a member of Mr Ecevit's DSP, refused discussion of a motion to delay the polls, sending it back to a commission where it will probably perish.

However, political sources said Virtue, which at first agreed to back a move to close the session, later withdrew support and said it would wait to hear from the commission considering the delay motion.

Mr Ecevit, installed as head of a minority caretaker government in January, is eager to go to the polls in the hope that a parliamentary deadlock that has dogged the country since 1995 could be broken. **Reuters, Ankara**

EUROPEAN UNION ENLARGEMENT

Polish negotiator on EU quits

Poland's European Union negotiating team lost an important member with the resignation yesterday of Janusz Kaczurba, the deputy minister at the economics ministry, who has been handling sensitive talks with the EU on the future of the country's steel industry.

Mr Kaczurba, recognised as one of Poland's most effective negotiators, resigned after admitting to working with the country's security agencies before 1989. Mr Kaczurba, originally an academic specialising in foreign trade, was a member of the Communist party and Poland's representative at the Gatt trade negotiations in the late 1980s.

The admission came under new laws that require government officials, parliamentarians and members of the legal profession to declare any involvement with security services before 1989. Failure to admit such involvement is a criminal offence.

Mr Kaczurba was the deputy head of Poland's 16-strong negotiating team. His resignation follows the recent dismissal by Jerzy Buzek, the prime minister, of Piotr Nowina-Konopka, the country's EU negotiating team's other deputy chairman. **Christopher Bobinski, Warsaw**

COMMISSION PRESIDENCY

Kok candidacy unlikely

The chance that Wim Kok, Dutch prime minister, might accept the presidency of the European Commission if offered receded yesterday, when a Hague parliamentary inquiry delayed an anxiously awaited report until late April. EU leaders intend to resolve the succession to Jacques Santer well before then.

A commission of Dutch MPs is investigating the handling by his ministers of the aftermath of the fatal El Al air crash in Amsterdam in 1992. Its findings could prompt resignations from the cabinet, creating upheaval in his three-party coalition. The commission, which was to have reported by the end of this month, said it needed more time.

Evidence was given of mystery illnesses among those exposed to the wreckage, and a failure to track down cargo details for the flight. Although Mr Kok himself is thought unlikely to be found culpable, he will need to deal with any consequences for fellow ministers. The premier has also spoken of his "contract" with voters, which runs until 2002. The inquiry is to produce its findings on April 22. **Gordon Cramb, Amsterdam**

AGRICULTURAL REFORM

French farmers in protest

Tens of thousands of farmers descended on town centres across France yesterday in a last-ditch bid to get a European Union farm deal renegotiated before its endorsement at a special summit in Berlin.

FNSEA, a farm union, said 50,000 farmers took part in protests spanning 90 per cent of France, blocking roads with tractors and disrupting access to local administrative offices. Riot police were drafted into some town centres as farmers set tractor tyres alight and used wind machines to blast straw around. No violence was reported, however. "The lads are still mobilised, the pressure is still on in France," said the head of FNSEA, Luc Guyau.

He said a delegation of French farm representatives would travel to Berlin today for the start of the EU summit. "Tomorrow we go to Berlin where we will reaffirm our support for German farmers," he said, adding that some 2,000 to 3,000 German farmers were expected to demonstrate outside the summit.

Leaders have fixed the Berlin talks as a deadline to tie up reforms of the EU's finances. The meeting should also finalise, as part of the package, a farm reform deal hammered out earlier this month. **Reuters, Paris**

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French bankers square up to New York campaigners for bitter Holocaust battle

The fight with France over actions under the Vichy regime could prove more divisive than those with Switzerland and Germany. **John Authers** and **Samer Iskandar** report

French bankers are heading for a clash with US campaigners calling for European financial institutions to compensate Holocaust victims.

As has already happened in Switzerland and Germany, French banks now face a class action lawsuit, and the possibility of economic sanctions, over their actions under the wartime Vichy regime. There are also threats that the €15bn ($16.4bn) merger of Paribas and Société Générale, the largest in the French bank sector, could be delayed by New York regulators.

Elan Steinberg, executive director of the New York-based World Jewish Congress, which led the campaign against the Swiss, estimates the liability of French banks to Holocaust survivors is "at least $5bn".

He compared them unfavourably with their Swiss and German counterparts, saying: "If they aren't willing to co-operate, then we both will go down a very unpleasant road. The bottom line is that if French banks want to operate on a global level they have to adopt global standards of behaviour."

Nobody denies that French banks behaved disgracefully towards the Jews during the Vichy regime. It was illegal for Jews to be involved in banking, and the banks helped to impound and confiscate Jewish assets. In December 1941, after a German soldier was killed by the Resistance, the occupying authorities levied a "fine" of FFr1bn on the Jewish communities. Banks were again instrumental in paying it.

However, the French case could prove more divisive than previous Holocaust campaigns. The French banking industry has already embarked on an exhaustive process to determine how much it should pay. Its members deeply object to US interference.

In February 1997 – well before the first lawsuits in the US – Alain Juppé, then French prime minister, appointed Jean Mattéoli, a former cabinet minister and president of the Resistance Foundation, to head a new historical commission. He appointed remaining members in conjunction with Crif, the main Jewish representative organisation in France. That commission published its second working proposal earlier this year. Mr Steinberg used its figures to produce his estimate of $5bn for the banks' liability.

The banks argue that as the contents of accounts must revert to the state once they have remained unused for at least 30 years, any solution must involve the French government.

"The Mattéoli commission has very strong backing," says a senior French banker. "There is a consensus, both at the political level and within the banking community, to let it finish the task it has started."

More emotively, the French Jewish community, the world's third largest after Israel and the US, also seems to be opposed to the WJC's aggressive tactics. Theo Klein, former president of Crif, inveighed against the WJC in the New York Times, attacking its "blind and arrogant approach".

Mr Steinberg said: "More than half the wartime Jewish population of France were refugees. This is not simply a French Jewish issue."

None of this rhetoric will find favour in France, which believes it has come up with its own fair remedy.

The litigation has moved slowly since the complaint against French banks was first filed in December 1997. No deliberations of any importance have yet taken place in court.

French banks and their lawyers also dismiss the threat that US approval of the SocGen/Paribas merger might be delayed. "We are confident the legal and regulatory formalities will be settled according to the schedule that has been laid out," says a person involved in the talks.

But the threat of economic sanctions – which appeared to be decisive in persuading the Swiss banks to make a $1.25bn settlement payment last year – remains real.

"We are taking this threat very seriously," says a spokeswoman for a French bank active in the US.

The WJC will report next week to the committee of state and city officials which led the sanctions against the Swiss.

Mr Steinberg says the report against the French will be "bleak". "The Mattéoli commission has been in operation over two years," he says, "and not one French franc has been returned".

But Mr Mattéoli has ruled out "the method of a global settlement, as was done in Switzerland and is currently being done by Germany". He said: "If the French government feels it has to give in to pressure from the WJC, it will be its responsibility. Personally, I will not preside over an organism that is in charge of doing that."

EU SUMMIT GERMAN CHANCELLOR WILL BE IN THE SPOTLIGHT AS HE HOSTS TALKS TO DISCUSS FINANCING AND ENLARGEMENT OF THE UNION

Schröder faces big test of leadership

By Haig Simonian in Berlin

Two symbols of a new Germany will be on display and under scrutiny at the European Union summit that begins here tomorrow: the first is the so-called "Berlin republic", the reunified Germany soon to be ruled from the country's historic capital. The second is Germany's new chancellor, Gerhard Schröder.

The choice of Berlin for the summit, just a few months before the government is due to move from Bonn, has been taken to symbolise a new self-confidence in German foreign policy. At a time when the *future financing* of the EU is to be resolved, a new European Commission must be found and war looms in Kosovo, Berlin is certainly in the *spotlight*.

But this week's summit will be far more than a symbolic test for Mr Schröder. As president of the EU's rotating council, it will be up to him to ensure Berlin goes down as a landmark for progress on the ambitious reforms to prepare the EU to *absorb new members and for* the financial challenges of the next millennium.

It will be a critical light that shines on the chancellor. Since taking office last October, his fractious coalition of Social Democrats and environmentalist Greens has attracted attention more for dithering and divisions than for meeting its election *pledges for greater social* justice. A string of mishaps culminated in the shock resignation this month of Oskar Lafontaine, the controversial leftwing finance minister.

Mr Schröder's advisers are crossing their fingers that a successful summit will restore the prestige and credibility of the strained government and improve its chances in the forthcoming European elections. The chancellor himself must be hoping agreement in Berlin will help to overcome misgivings among European partners as to whether he is a worthy successor to Helmut Kohl, Germany's heavyweight chancellor who steered the EU through many crises in his 16 years of office.

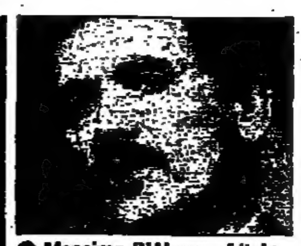
Accord in Berlin would also buttress some of Mr Schröder's broader aims. Agreement on Agenda 2000 would reinforce the new, more confident image he wants to carve out for Germany.

Whether things will go according to Mr Schröder's script is less certain. The chancellor has pushed himself tirelessly to make sure the summit comes off. Last week, he visited every EU capital in a whistle-stop tour to gauge opinion before the final negotiations took place.

What Gerhard Schröder wants from Europe's leaders:


● José Maria Aznar of Spain to accept a limit on regional subsidies


● Britain's Tony Blair to accept a limit on the UK budget rebate


● Massimo D'Alema of Italy to contribute more to the EU budget


● Jacques Chirac of France to accept deep price cuts for farmers

It is hardly Mr Schröder's fault that, less than a week after losing his finance minister, he faces the additional handicap of choosing a new European Commission. As if the Agenda 2000 negotiations were not divisive enough, Mr Schröder, as summit chairman, will have to steer fellow EU leaders into choosing a successor to Jacques Santer, the Commission president, who stepped down last week.

Sceptics argue it could be too much for a political lightweight such as Mr Schröder. Until last year's general elections, he basked in the relative obscurity of the premiership of Lower Saxony. His international experience was limited: even nationally, his elevation as the Social Democrats' candidate for the chancellorship only came after a tough fight against Mr Lafontaine.

Even the most adroit and experienced international politician would find it hard to achieve a deal, given the breadth and divisiveness of Agenda 2000. The chances of accord are, in addition, compromised by the fact that the reforms involve financial sacrifices for many member states – or for key constituencies, such as farmers. Berlin, for Mr Schröder, will be the acid test.

EBRD may take part in Czech sell-offs

By Robert Anderson in Prague

The European Bank for Reconstruction and Development is considering participation in the Czech government's controversial plans to restructure and sell off some of the country's troubled private companies.

Charles Frank, first vice-president for banking, said the EBRD could have a role either in providing working capital to these big enterprises, many of which no longer have access to bank lending, or preferably as an investor alongside a strategic partner.

The Czech cabinet is to decide by the end of this month between rival versions of the plan submitted by Miroslav Gregr, industry minister, and Pavel Mertlik, deputy premier for economic affairs.

Both plans seek to help heavily indebted companies struggling in the current recession and credit squeeze, and to attract foreign investors into key sectors. The state would win back control of the companies by buying their loans and exchanging them for shares; bringing in new management; helping them to find working capital; and eventually sell its stake to a foreign investor.

However, Mr Mertlik has criticised the cost of Mr Gregr's version, its lack of a privatisation deadline, its reliance on bureaucrats rather than professional managers and its provision allowing current owners to reassert their rights after the state has solved the company's problems. Analysts have warned the scheme could stop rather than accelerate restructuring.

Mr Frank said the EBRD's involvement was conditional on a clear restructuring plan and the future involvement of a strategic investor.

He also emphasised the linkage between industrial restructuring and privatisation of the banking sector, which in the past gave out easy credit and is now struggling to provision for bad loans.

"So long as lending decisions are not based on purely economic criteria this will prolong the problem," he said.

The EBRD already has an 11.8 per cent stake in Ceska Sporitelna, the main retail bank that is to be privatised this autumn, and Mr Frank said it would consider participating in a planned equity increase of up to Kc7.6bn ($220m) before the sell-off.

"We're willing to put more money in as long as we are convinced that the asset and liability structure is being restructured in a convincing way and that the privatisation process is under way," he said.

The EBRD is also interested in buying part of the Slovak state's 24 per cent stake in Ceskoslovenska Obchodni Banka if it would help the bank's privatisation in May.

Experts to report on Commission's 'culture'

By Michael Smith in Brussels

The European parliament yesterday asked independent experts to complete by September a wide-ranging probe into the culture and working methods of the European Commission.

A motion approved by a full session of the parliament said the investigation should deal with the awarding of financial contracts, temporary staff contracts and procedures for following up allegations of fraud mismanagement and nepotism.

The investigation will be conducted by the five independent experts whose report on commission management last week prompted the resignation of the 20-strong college of commissioners who act as the Commission's head and the European Union's executive.

The new report is expected to focus on how the Commission operates below the level of the commissioners.

Drawing attention to parliament's role in exposing Commission mismanagement, yesterday's motion criticised the EU's council of ministers, made up of national governments, for "failing to assume its responsibilities as one of the two arms of the budget authority".

Parliament rejected calls aimed at ensuring the automatic reinstatement of Paul van Buitenen, the "whistleblower" suspended from his Commission job after exposing alleged fraud and mismanagement.

It called on the Commission to re-examine his case rather than a suggested alternative of reviewing his position and "drawing conclusions which are most favourable to him".

Members of the parliament threw out calls for a change in EU staff regulations to make it possible for officials to act as whistleblowers.

They also rejected calls for the independent experts to examine alleged cases of fraud and mismanagement at the parliament.

The decision to give the independent experts until September to complete their report followed claims by the largest political group, the socialists, that an earlier deadline would have prevented a thorough investigation.

The European People's party, the parliament's second largest group including Christian democrats and conservatives, had wanted the experts to finish their work by April 20.

Müller determined to work with business

By Ralph Atkins in Bonn

Werner Müller, Germany's acting finance minister, put Bonn's relations with business on a new footing yesterday by signalling important concessions to industry while defending the centre-left government's right to pursue "social democratic" policies.

Underlining a determination to work with – rather than against – business following Oskar Lafontaine's resignation as finance minister two weeks ago, Mr Müller ruled out increasing value added tax to fund a planned business-friendly reform of Germany's corporate tax system. Instead, he hinted that state subsidies could be cut.

Mr Müller risked angering trade unions by indicating that wages policy could be discussed under the government's *"alliance for jobs"* which brings together the state, employers and employees. Unions have defended traditional wage-round autonomy vigorously.

Mr Müller also suggested recent legislation policing low wage and contract employment might have to be corrected.

His comments after a meeting in Munich with leaders of the main industry associations, where he stood in for Gerhard Schröder, the chancellor, were deliberately balanced, however.

Mr Müller said Germany was still governed by "a Social Democratic-led government that wants, in particular, to straighten out the unsocial aspects to the past 20 years' economic developments".

Mr Müller is federal economics minister but has responsibility for the finance ministry until mid-April when Hans Eichel, state prime minister of Hesse, takes it over.

His caution reflected substantial tensions in the SDP-Green party governing pact which have become clearer since Mr Lafontaine's departure.

Many leftwing SPD and Green MPs fear Mr Schröder is intent on softening the government's radicalism.

For business, Hans-Olaf Henkel, president of the German industry association, warned in Munich that an increase in VAT – which has been widely mooted in Bonn – could have "disastrous" effects. Business confidence had dropped; legislation introduced by the government so far was "not compatible with job creation".

But Mr Henkel said business "noted with satisfaction that the macroeconomic understanding of the acting finance minister, at least in our view, is fundamentally different from that of his predecessor".

Mr Müller said the aim was to cap top corporate tax rates at 35 per cent, including local trading taxes, compared with more than 60 per cent at present.

Dumas takes 'temporary' leave as head of court

By Samer Iskandar in Paris

Roland Dumas, head of France's constitutional court, yesterday took a "temporary" leave of absence in the wake of mounting pressure from politicians for his resignation.

The move, "to protect the institution", was widely interpreted as the first step towards resigning. It follows last week's reopening of an investigation into allegations that he benefited from misappropriated corporate assets.

Politicians from both sides intensified their calls at the weekend for the resignation of Mr Dumas, a friend of the late socialist president François Mitterrand.

"I have decided, for a while, not to fulfil my function as president of the Conseil Constitutionnel," Mr Dumas said yesterday. "When the legal proceedings are finished, I shall return to my place as head of the Conseil."

The Conseil Constitutionnel, or constitutional court, is the country's highest court, and rules on whether laws are compatible with the constitution.

Eva Joly and Laurence Vichnievsky, the investigating magistrates, last week reopened an investigation they had closed in December last year, after Christine Deviers-Joncour, a former lobbyist for Elf-Aquitaine, the oil company, claimed she had given Mr Dumas valuable gifts purchased with cash from Elf.

Ms Deviers-Joncour, who was Mr Dumas' mistress between 1989 and 1993 when he was foreign minister under President Mitterrand, was investigated and imprisoned on suspicion of misappropriating corporate assets. Her allegations last week that she had given Mr Dumas statues worth FFr264,000 ($44,000) and that he was the ultimate beneficiary of a FFr17m Paris apartment she bought in 1992 led to the reopening.

Mr Dumas denies all the allegations. Yesterday, he hinted he might take legal action. His leave would allow him to "seek the truth and take the procedural initiatives that have become necessary".

Ms Deviers-Joncour is thought to have bought the apartment with part of an estimated FFr66m of fees and commissions linked to the sale of French military ships to Taiwan in 1992, while she was having an affair with Mr Dumas, then foreign minister.

Yves Guéna, 76, the most senior of the nine-member constitutional court, will hold the presidency in Mr Dumas' absence.

Japan's biggest cities fall into deficit

By Gillian Tett and Michiyo Nakamoto in Tokyo

Tokyo and Osaka, Japan's two largest cities, have both recorded a budget deficit for the first time in two decades, because of a sharp fall in tax revenues and rising debt payments.

The deficits – about Y100bn ($847m) for Tokyo and Y17bn for Osaka in fiscal 1998 – illustrate the mounting pressures undermining Japanese public finances.

The problems will either force central government to use more of its own funds to support the cities soon, or leave the two cities implementing radical cuts in infrastructure investment that could further hurt economic growth, officials warn.

Osaka's problems have prompted the central government to supply the city with an extra Y180bn from the Trust Fund Bureau, a state managed fund, next year to offset the falling tax revenues, officials say. Japanese local governments traditionally receive revenues from taxes, central government subsidies and bond issues.

Masashi Hashimoto, head of the financial planning in the Osaka prefectural government, said: "These transfers of funds are designed to prevent a bankruptcy or default [on local bonds]."

Tokyo has not yet received additional government funds. But it has only narrowly escaped being forced into an embarrassing "rehabilitation" programme this year, under which the central government would have taken control of the city, officials say. And the city has implemented Y300bn of cost-cutting measures, leaving next year's budget running at a projected Y6,289bn.

Both Osaka and Tokyo admit they see little prospect of repaying their deficits soon. "We have big problems," says Mr Hashimoto, who calculates that Osaka's expenditures now exceed revenues by more than 112 per cent.

The pressures at Osaka and Tokyo are echoed at most other local governments, analysts warn. Tetsufumi Yamakawa, economist at Goldman Sachs said: "The deterioration in local government finances shows no sign of relenting. This has a structural element and there are no quick remedies."

The problem has partly arisen because tax revenues have fallen sharply. Tokyo's income fell 12 per cent in fiscal 1998, while Osaka's fell around 10 per cent, with a similar decline forecast for fiscal 1999. But at the same time, debt servicing costs have grown because local governments have been forced to issuing growing levels of debt. Goldman Sachs forecasts that local government bond issuance will rise to a record high of Y9,600bn in fiscal 1999, leaving the outstanding balance of municipal bonds at Y45,100bn, more than double the level in the early 1990s.

The problems could force the Trust Fund Bureau to make additional payments to local governments, leaving it with less money to purchase Japanese government bonds, analysts warn.

S Korean life insurer faces investigation

By John Burton in Seoul

Korea Life Insurance, South Korea's second biggest life insurer, was yesterday placed under state supervisory control as officials launched an investigation into mismanagement.

The probe comes as the government tries to sell Korea Life to MetLife Insurance of the US for $1bn as part of a restructuring of 10 insolvent life insurers.

The Financial Supervisory Service (FSS) asked prosecutors to determine why Korea Life's debts exceeded assets by $2.4bn, most of which were bad loans to affiliates.

Among those to be investigated is Lee Chung-bo, a former head of the insurance supervisory board, on suspicion of dereliction of duty in overseeing Korea Life. The insurance supervisory board has since been taken over by the FSS. Mr Lee allegedly delayed a special audit of Korea Life despite knowledge that its lending to subsidiaries was more than twice that reported.

Choi Soon-young, Korea Life chairman, has already been arrested on charges of embezzling $150m and illegally transferring it abroad. The FSS has asked that travel bans be imposed on 11 other Korea Life executives.

The problems at Korea Life are expected to force the government to recapitalise the life insurer to protect policyholders.

The FSS has ordered 10 of Korea's 29 life insurers to be sold to outside investors. Three are expected to be taken over by big domestic conglomerates while seven offer equity stakes to foreign investors. This follows a similar restructuring of commercial banks.

FSS inspectors have been dispatched to other troubled life insurers to check whether assets are being properly managed. The government has threatened to place them under supervisory control if serious problems are discovered.

The problems of life insurers were caused by bad loans to corporate borrowers and investments in the equity, bond and property markets that went sour following Korea's economic crisis last year.

The FSS recently ordered the troubled life insurers to stop making new large loans to corporate borrowers to prevent their financial position from deteriorating further.

Analysts believe the life insurers sold to the big conglomerates could suffer problems since they are likely to be used to help finance the debt-heavy groups.

The Fair Trade Commission has claimed that Samsung Life Insurance, for example, had bought large amounts of commercial paper from Samsung affiliates at above-market prices in the last two years.

Judge Augustine Paul (second left) leaves the Malaysian High Court under tight security yesterday Reuters

Anwar team refuses to sum up

By T.J. Tan in Kuala Lumpur

The trial of Anwar Ibrahim, Malaysia's sacked and beaten deputy prime minister, came to an abrupt end yesterday, when the defence refused to sum up its case.

It was protesting at the judge's decision not to consider a defence motion that he disqualify himself because Mr Anwar alleged he had not received a fair trial.

The bizarre turn of events capped five months of testimony in the controversial trial, which has divided the nation and split the ruling party of Prime Minister Mahathir Mohamad.

Mr Anwar is accused of committing sexual misdeeds and abusing his power as Dr Mahathir's heir apparent to conceal them. He denies the charges and contends they are part of a high-level plot to keep him from challenging Dr Mahathir's 18-year reign.

Judge Augustine Paul refused to hear the motion that he be dismissed, saying it was more fitting that the defence apply to the country's Chief Judge. "That will ensure that a higher authority decides on my conduct rather than I myself being compelled to decide," he said.

Mohtar Abdullah, the attorney-general, who is prosecuting the case, weighed in saying it was wrong for the defence to make such a request when any decision by the court could be appealed.

Judge Paul told Mr Anwar's legal team it would be held in contempt if it refused to sum up its case. When the defence still refused, he said he would decide how to proceed on that matter another day. But, in any event, he said he would give his verdict on April 6 and invited Mr Anwar to offer his own written submissions.

Mr Anwar, however, told journalists that he would not do so unless the motion to disqualify the judge was heard.

"If the defence for whatever reason chooses not to submit, it's entirely up to them. Of course this places an extra burden on me to ensure justice is done," Judge Paul said.

Mr Anwar said he expected to be sent to jail.

NEWS DIGEST

HELP FOR INDONESIA

ADB to lend $400m for power restructuring

The Asian Development Bank has agreed on $400m in loans to help Indonesia restructure its troubled power sector, the ADB said yesterday.

"High inflation and reduced economic activity make it difficult for the government to raise electricity tariffs quickly to meet costs which have risen sharply through the rupiah's depreciation," the bank said. "As a result the state-owned utility, Perusahaan Listrik Negara (PLN), is incurring heavy losses. Without reform it cannot survive."

The bank said the programme aimed to establish a competitive market in Java and Bali to ensure there are multiple buyers and sellers of bulk electricity by 2003, adjust tariffs to ensure the financial viability of PLN and its subsidiaries in a transition period, increase the private sector role and strengthen the regulatory environment.

The loan comes before PLN has clarified its stance on power purchase agreements with 26 private power producers. The company hopes to persuade producers to reduce rates and delay start-up to compensate for the depreciation of the rupiah and fall in demand for power. **Tony Tassell, Manila and Sander Thoenes, Jakarta**

SOUTH KOREA

Economy contracts by 5.8%

The South Korean economy shrank by 5.8 per cent in 1998 in its worst recession in 45 years but the contraction was less severe than had been feared a year ago.

The central bank said last year's decline, the first since 1980, was likely to be reversed this year. The economy is expected to rebound by 3 per cent as domestic consumption begins to recover from last year's financial crisis. Korea slipped to become the world's 17th largest economy from 11th place in 1997, when the economy grew by 5 per cent. **John Burton, Seoul**

THAI ECONOMY

Tax stimulus planned

The Thai economy is due to receive extra fiscal stimulus later this month with the announcement of a series of tax cuts equal to some 1 per cent of gross domestic product, the government said in its latest agreement with the International Monetary Fund.

Approval of the agreement by the IMF board, expected in April, will allow the Thai government to draw down about $500m from a $17.2bn bailout fund set up in August 1997. The move to cut taxes, which will raise Thailand's fiscal deficit to 6 per cent of GDP from an earlier projection of 5 per cent, is a recognition by Thai authorities and the IMF that government spending has been hard to implement. **Ted Bardacke, Bangkok**

JAPANESE ACTION

'N Korean' ships fired on

Japanese patrol boats chased and fired warning shots at two suspected North Korean ships yesterday, the country's first naval engagement since 1953. Maritime officials said nine patrol boats, three aircraft and three destroyers were pursuing the ships in international waters late on Tuesday, about 300km north-west of Tokyo.

The unidentified ships were found in Japanese waters but ignored orders to stop and continued fleeing after shots were fired, defence officials said. **Reuters, Tokyo**

HONG KONG GOVERNMENT

Anson Chan to stay on

Anson Chan (left), head of Hong Kong's civil service, will not retire early next year but will continue as chief secretary until June 2002, Tung Chee-hwa, the territory's chief executive, said yesterday. Mrs Chan has been chief secretary since 1993 and is the most popular public official in Hong Kong. Yesterday's announcement was praised by local parties across the political spectrum. Mr Tung's decision in early 1997 to keep all the senior civil service of the British administration was seen as an important move towards maintaining civil service independence when Hong Kong reverted to Chinese rule in July 1997. Yesterday, he said he felt Mrs Chan's continued presence was essential to maintain the stability of the government at a time when the economy was in the worst recession in a generation. **Rahul Jacob, Hong Kong**

● A Hong Kong appeals court ruled yesterday that laws prohibiting desecration of Hong Kong and Chinese flags were unconstitutional, setting the stage for another constitutional row with the mainland. **Reuters, Hong Kong**

HK chooses three banks to advise on share sales

By Rahul Jacob in Hong Kong

The Hong Kong government has selected three advisers to help it dispose of the huge share portfolio it amassed during its extraordinary intervention on the local stock market last year. According to local media reports, the investment banks chosen are ING Barings, Goldman Sachs and Jardine Fleming.

The Exchange Fund Investment Limited (EFIL), the body set up by the Hong Kong government to manage its share portfolio, now estimated to be worth more than HK$175bn (US$22.6bn), said last week that it would sell the shares through a variety of methods, including share placements and corporate buybacks.

The fierce contest to be named one of the advisers included all the leading international investment banks with operations in Hong Kong.

EFIL has indicated that the distribution business would not be limited to the three advisers. Fees for arranging the sale of the shares are expected to be about US$400m.

"The distribution business is where the real fees are. Even at low fees, the absolute value is still substantial," said an executive with one of the companies that competed to be adviser.

The controversial intervention in August was justified by the government as a defensive move to prevent hedge funds from driving down the local market by taking large bets against the Hong Kong dollar.

Although the intervention itself was widely applauded in Hong Kong, the disposal of the shares will be very closely watched.

The government had initially said it would be a completely passive investor, but has since indicated it would play a role by selectively voting on such proposals as mergers and acquisitions.

Observers said such corporate governance issues added to the complexity of the three advisers' task. During its August shopping spree the government bought shares in all of the 33 companies of the Hang Seng Index.

China used forex reserves to help banks

By James Harding in Shanghai

China has transferred funds from its foreign exchange reserves to assist domestic banks and designated government projects to finance foreign currency obligations.

The deployment of China's $146.5bn foreign exchange holdings is a state secret, but bankers and officials confirm that in the mid-1990s the central bank extended funds from the reserves as policy loans to Chinese financial institutions.

Policy lending from the reserves is said to have stopped by late 1997, after the Asian crisis exposed how the depletion of foreign exchange reserves led to the undoing of Thailand, where the central bank tied up funds in forward contracts and lent billions of dollars to support struggling financial institutions.

"The actual usable foreign reserves for market operations are significantly less than that number [$146.5bn]," says one person closely familiar with the management of the reserves. "They have made policy loans, [but] they have not been extended to a wide range of clients. Nobody knows how much is really manageable money."

The size and liquidity of China's foreign currency reserves underpin Beijing's commitment to maintain the stability of the Chinese currency as well as international confidence in the Chinese economy.

The sums transferred to Chinese banks, which were then lent on to help state infrastructure and industrial projects make foreign currency payments for imported equipment and technology, are said to be small.

A "very high proportion" of the reserves are usable, says one well-informed observer, who like others spoke on condition of anonymity because of the hypersensitivity that surrounds China's forex reserves and exchange rate management

However, the evidence that even a small part of the foreign exchange reserves have been farmed out into the domestic economy raises questions about how much of China's $146.5bn reserves could be mobilised if there were a sharp deterioration in the country's balance of payments.

The State Administration of Foreign Exchange (SAFE), which is responsible for managing the world's second largest reserves, has said publicly that it maintains stringent internal controls and keeps the country's holdings on international markets in high quality, high liquidity investments.

However, some funds extended in the past as policy loans are still understood to be held by domestic financial institutions. "If you have $100bn, it is easy to hide two billion or for two billion to go missing," says another Chinese administrator. But, he adds: "The total [reserve-related liabilities] cannot be very big."

Officers at several government-owned banks, including Shanghai Pudong Development Bank, Guangdong Development Bank and China Everbright Bank, confirm they have in the past received funds from the foreign exchange reserves.

From 1995 to 1997, the Chinese government used a small portion of its foreign exchange reserves typically to make deposits with a number of Chinese financial institutions. The money was then lent on to help state-approved industrial and infrastructure projects, which needed foreign currency but were unable to borrow overseas or could not afford the relatively high costs of international borrowing, they say. These funds could not be recovered immediately, they add.

At the Shanghai Pudong Development Bank, one banker says they "borrowed several hundred million dollars in foreign exchange reserve loans". An official at the Guangdong Development Bank in southern China confirmed receipt of $200m in foreign exchange reserve loans.

The chance to borrow from the foreign exchange reserves was "a special policy" for a limited time, according to an official at China Everbright who said they received "between $100m and $200m" in funds from the reserves.

"For commercial banks it was a good way to collect funds... otherwise, we faced many restrictions if we wanted to borrow abroad," says the Everbright banker.

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INDONESIA

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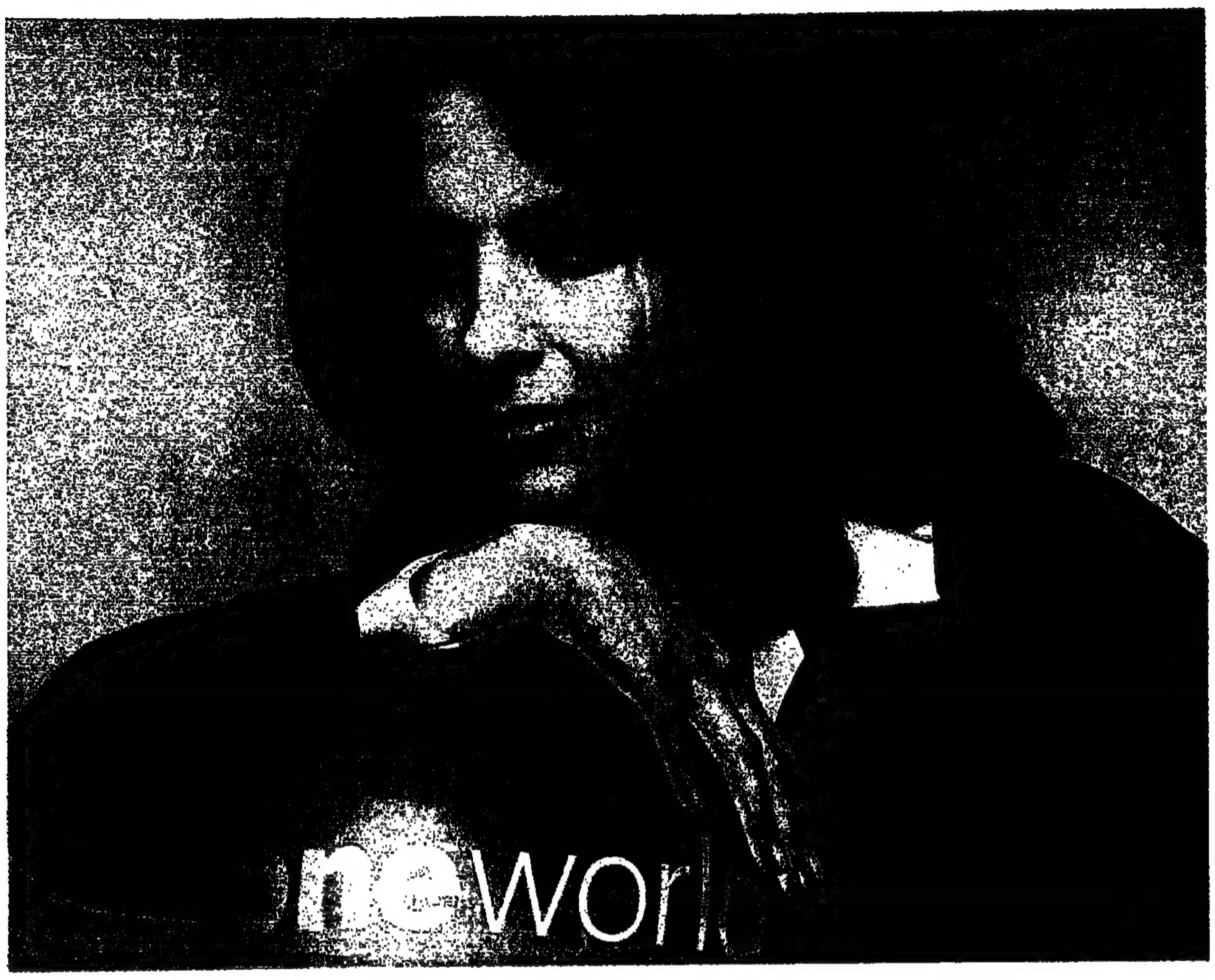

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Republicans back on defensive over budget

By Deborah McGregor in Washington

For congressional Republicans, the budget debate that begins in earnest in the Senate today represents a scarily familiar trek into ominous political terrain.

As in past years, Republicans are finding themselves on the defensive when it comes to steering their fiscal agenda through Congress.

By the end of the week, the House and Senate are hoping to pass similar versions of a budget blueprint that already carries the seeds of a potentially bruising confrontation with President Bill Clinton later this year over spending priorities.

This so-called "budget resolution" is an internal congressional document.

Unlike ordinary legislation, it does not require a presidential signature. Nor can Mr Clinton veto it.

It is mainly the handiwork of two powerful congressional chairmen: Pete Domenici, the veteran Republican chairman of the Senate budget committee and John Kasich, his House counterpart.

This year, Republicans are proceeding cautiously, trying not to give Mr Clinton the kind of ammunition that has allowed him to score dazzling political victories in recent years, most notably during the paralysing shutdowns of the federal government in 1995-96 for which the public ultimately blamed them.

At the same time, many Republicans are fretting privately that they are merely walking once again into a political trap set by the president.

They have allowed Mr Clinton to define the budget battleground as surely in times of surplus as he did in times of deficits.

The president's insistence on reserving the bulk of federal surpluses over the next 15 years for Social Security and Medicare rescues has already prompted Republicans, wary of being painted as tax-cutting spendthrifts, to declare that they would fence off the surpluses.

They have settled for a modest package of tax relief measures to be funded by offsetting sources of revenues yet to be defined, rather than the sweeping income tax cut they had once envisaged.

Indeed "yet to be defined" has become the operative phrase in this year's Republican budget strategy.

The blueprint that will be ratified by the House and Senate in separate votes this week is little more than a placeholder.

Its broad outlines – hands off Social Security, some modest tax relief, more spending for education and defence – are purposefully vague, awaiting a hoped-for injection of cash from larger-than-projected surpluses later this year.

House Republicans have vowed to use any additional funds for a bigger tax cut.

The Senate budget plan is deliberately vague about which programmes will be cut in order to live within the tight caps on discretionary spending set by the balanced-budget agreement of 1997.

There is no attempt to reconcile blatant anomalies, such as the fact that the recently passed pay and pension increase for military personnel, which is estimated to cost $3bn this year, is nowhere to be found in Republican budget documents.

John Kasich, Republican House budget committee chairman, and Senate counterpart Pete Domenici AP

In an odd twist, the Clinton administration seems to be taking the Republicans' budget outline more seriously than the Republicans themselves are.

Madeleine Albright, the secretary of state, recently attacked Republican proposals for slashing spending on foreign affairs by more than 20 per cent, calling them "outrageous and unacceptable" and charging that they would "take a meat axe to American leadership" in the world.

Holding a slim six-vote majority in the House, Republicans' immediate challenge is to rally their troops for the big fiscal fights to come later.

An ominous note for party unity was sounded on Monday when Bud Shuster, the feisty chairman of the House transportation committee, indicated he would vote against his own party's budget plan unless it was changed to increase aviation spending.

As the budget debate progresses, many similar complaints are likely to be heard, as lawmakers feel the pinch of living within the tight spending caps they have vowed not to break.

Vice-president of Paraguay assassinated

By John Barham in São Paulo

Paraguay suffered a fresh political blow yesterday when gunmen killed the country's vice-president as he was arriving at his office in Asunción, the capital.

The assassins stopped José Maria Argaña's car, machine-gunned him and threw grenades at his car, mortally wounding him and his driver.

The killing is expected to deepen a power struggle within the ruling Colorado party that has already brought the country to the verge of violent confrontation. Mr Argaña was a bitter rival of President Raúl Cubas.

No group has claimed responsibility for the assassination and observers in Asunción could see no immediate motive for the killing.

Mr Cubas said he would set up an investigation.

Mr Cubas had become increasingly isolated after Congress voted last month to impeach him. He has been accused of violating the constitution last August by releasing a hardline former army general and close ally from jail. A military court sentenced General Lino Oviedo to 10 years in jail in March last year for attempting to depose Juan Wasmosy, the country's first civilian president since the fall of Alfredo Stroessner in 1989.

There were no reports of disorder, although police and soldiers blocked central streets in Asunción. Some businesses closed and public transport was temporarily halted.

Mr Argaña was one of the few political leaders to have survived the country's transition to democracy from the 35-year rule of Mr Stroessner, toppled in a military coup in 1989. He had served as foreign minister and president of the supreme court under Mr Stroessner.

Mr Cubas said Mr Argaña had "unfortunately not accepted the security facilities offered him by the government". Mr Cubas had apparently suggested he use a bullet proof car.

The expected rise in political tension may further disrupt Mercosur, the customs union linking Paraguay with Argentina, Brazil and Uruguay. Paraguay holds the symbolic revolving presidency of Mercosur which has come under growing strains following Brazil's 40 per cent devaluation January. Paraguay has suffered heavily from the devaluation because Brazil is its main trading partner.

Brazil and Argentina, which have repeatedly intervened in Paraguayan politics to shore up its frail democracy have said the death of Mr Argaña does not threaten the country's political system. Paraguayan authorities closed the borders immediately and no flights were allowed into the country.

Tensions rise ahead of Pinochet ruling

By Mark Mulligan in Santiago and John Mason in London

The Chilean government has called on the commander of the country's air force to "clarify" statements which suggested that divisions in the country today were similar to those which led to the 1973 military coup that brought General Augusto Pinochet to power.

José Florencio Guzmán, defence minister, yesterday met General Fernando Rojas Vender and other military leaders amid rising tensions on the eve of today's ruling by the Law Lords, Britain's highest court, on the Spanish request for Gen. Pinochet's extradition.

Gen. Rojas had said that Chile's transition to democracy was threatened by "a climate of division which we experienced in that sad period of national history".

This is a reference to the political and social unrest which precipitated the air force bombardment of the presidential palace on September 11, 1973, and the death of President Salvador Allende.

Jorge Arrate, government general secretary, described the comments as "unhelpful". President Eduardo Frei has called for calm ahead of the Law Lords' ruling.

If the ruling goes against Gen. Pinochet, it is likely to unleash protests outside the British and Spanish embassies where diplomats say special security arrangements for staff have been made.

If the Lords decide Gen. Pinochet does enjoy immunity as a former head of state from prosecution for events during his rule, police expect protests by leftwing activists and the families and supporters of people killed or tortured during the military dictatorship.

Opinion polls suggest about 70 per cent of Chileans think Gen. Pinochet should be tried for the excesses of his military junta.

In London, protesters calling for Gen Pinochet's extradition to Spain began a demonstration outside Parliament. Chile was likely to send an aircraft to Britain to fly the general home if the court rules in his favour.

Itsy Bitsy spot of bother for Bubbly Chubbies

By Andrew Edgecliffe-Johnson in New York

First Tinky Winky had to rebut accusations from television evangelist Rev Jerry Falwell of "role-modelling the gay lifestyle". Now the purple toy and its fellow Teletubbies have turned to the courts to fight a new challenge.

Ragdoll Productions of the UK and Itsy Bitsy Entertainment in New York, which own and market the cult children's television stars, claim that four new dolls called the Bubbly Chubbies are "obvious, studied knock-offs of the famous Teletubbies characters."

Ragdoll and Itsy Bitsy, which have previously protested about a Mexican television show called the Telechobis, filed a copyright infringement lawsuit in a Manhattan federal court against Wal-Mart, the largest US retailer, this week.

Wal-Mart introduced the Bubbly Chubbies earlier this month. The rotund dolls lack the antennae, stomach-mounted television screens and "magical extravaganza bags" sported by the Teletubbies, but they are similarly corpulent, pastel-coloured and "extraplanetary", the lawsuit alleges.

It further claims: "The name 'Bubbly Chubbies' was deliberately chosen to rhyme with 'Teletubbies' and to communicate to children and their parents that the Bubbly Chubbies characters and 'chubby' or 'tubby'... and evoke the same good will as the genuine 'Teletubbies'."

A Wal-Mart spokesman said the company would not comment, as it had not yet been served with the complaint. He said, however: "The company would never knowingly infringe anyone's copyright."

The four Teletubbies – Tinky Winky, Dipsy, Laa-Laa and Po – were created in 1997 for the BBC.

Since then, the series has spread to more than 100 countries, and created a minor marketing phenomenon. In the US, where the series airs on 323 Public Broadcasting System stations, Itsy Bitsy has signed 60 licensing agreements.

On the web today
● Cuba bomber faces death penalty ● New fight on N-fuels for Chrétien ● Hint of lower Canadian interest rates ● Asian time-lag catches out Seattle
http://www.ft.com/americas

Transatlantic beef warriors steer clear of open conflict

Despite the US threat of sanctions in its dispute with the European Union over hormone-treated meat, the two sides are pulling their punches, says **Guy de Jonquières**

When the US started preparing sanctions on European Union exports late last year, in retaliation over the EU's banana import regime, Brussels reacted with fury. But this week's launch of a similar US exercise in a dispute over the EU's ban on hormone-treated beef was accompanied by much more soothing mood music.

US officials stressed that they really wanted an amicable solution to the dispute. They sought to present a preliminary "hit-list" of exports liable to sanctions less as aggressive sabre-rattling than as a contingency measure in case efforts to reach a settlement with the EU failed.

Brussels responded with equal restraint – even though the sanctions list was littered with such gastronomically emotive items as pâté de foie gras, Roquefort cheese and truffles, as well as cut flowers, chewing gum and sugar bonbons.

The European Commission played down the US announcement as a routine procedural step, while the Council of Ministers calmly instructed EU negotiators to continue talks with Washington on a settlement.

The moderate tone does not reflect a belief that the beef dispute will be easy to resolve. Indeed, in some ways the central issues are trickier than in the bananas battle, and the political feelings they arouse on both sides of the Atlantic at least as strong.

But both sides have reasons to avoid rushing to the brink. One is fear of seriously damaging a trade relationship already severely strained by hostility over bananas.

But both sides have reasons to avoid rushing to the brink

The US also accepts that lifting the 11-year beef ban poses a political difficult challenge for the EU, when its consumers' concern about food safety has been heightened by the "mad cow" crisis and controversy about genetically-modified foods.

The EU, meanwhile, recognises it is on weak legal ground. The World Trade Organisation ruled against its ban more than a year ago, because it was not backed by scientific evidence that hormone-treated beef is unsafe, as WTO rules require.

EU scientific studies have consistently failed to find such evidence. Brussels has ordered fresh studies. But they will not be completed by May 13, the deadline for complying with the WTO ruling.

If the ban is still in force then, Washington could ask the WTO to authorise its proposed sanctions. But that would not meet the overriding US aim of removing a long-standing obstacle to its beef exports.

Hence, the search is on for a compromise. It has focused so far on a US proposal to label all its beef sold in the EU. But although the suggestion marks an important concession by Washington, it is fraught with difficulties.

The US wants such labels to show only the national origin of its meat, but the EU says they must stipulate that it has been treated with growth hormones. Even if that disagreement can somehow be resolved, complex bargaining would be needed to decide what products should be labelled, and in which retail outlets.

Furthermore, the US insists it will only consider labelling if the EU first undertakes to lift its ban. But Brussels is refusing to give such a guarantee until its scientific studies are completed.

Some EU officials think labelling may prove a red herring. "If the studies find hormone-treated beef is not unsafe, the ban will have to go," says one. "If they find it is, the ban can stay. Either way, labelling will not be needed."

But such a clear-cut resolution may prove elusive. Some in Brussels hope preliminary results from the studies, expected next month, will raise enough scientific doubts to justify a further delay in removing the ban until research is completed.

The EU says that in that event, it would offer the US compensation, in the form of reduced tariffs on other agricultural imports, until the final studies were ready.

The US says it is prepared to consider temporary compensation – rather than retaliation – if no settlement has been reached by May 13, but only if the EU firmly commits itself to lifting its ban quickly.

Resolving US-EU differences over timing is therefore crucial to hopes of a settlement. These are also likely to be influenced by the studies' findings – and how they are interpreted.

Given European politicians' reluctance to brave emotional public concerns about food safety, many might well be tempted to seize on even the smallest hint of scientific doubt about hormones in beef as a pretext for continuing the EU's ban permanently.

Washington's only recourse then might be to resubmit the whole case to the WTO, which could take months to adjudicate. That could prove too much for the US. It complains bitterly that EU prevarication in the WTO has already created an "endless loop" of litigation over bananas and undermined support for the organisation in Congress.

Even if that risk is averted, efforts to keep tempers from flaring are likely to be tested in the next few weeks. Indeed, there are already signs that the mood of sweet reason is starting to fray at the edges.

Some US officials are sceptical of the EU scientific studies, saying they have been kept in the dark about exactly how they are being conducted, and by whom.

EU officials, meanwhile, are still unsure whether, for all Washington's emollient talk, it really wants a settlement. Says one: "This could all just be part of a much bigger US scheme, designed to show Congress that it can get results by acting tough, rather than through negotiation."

Cattle being herded in Nevada: despite a moderate stance by both sides the dispute will not be easy to solve

Steel bill faces tough run in Senate

By Nancy Dunne in Washington

A bill to impose quotas on all foreign steel imports, passed overwhelmingly by the US House of Representatives, is facing tougher going in the Senate, where legislation can be killed by a few filibustering members.

During its first hearing before a Senate committee yesterday, Senator Phil Gramm called the quota bill a "prosperity killer" which comprised "a major move towards protectionism".

"This bill may have blown through the House, but it's not going to blow through the US Senate," he said. "I think it would be a disaster for the country."

His statement followed demands for aid to the steel industry by other legislators. Senator Arlen Specter, a Pennsylvania Republican, proposed a bill to allow US companies to go to court to get swift relief from imports by the imposition of duties.

This, would, "unlike the steel quota bill", be consistent with world trade rules. Such a law would also help all industries get relief from import surges with a longer process through the International Trade Commission.

Another bill, proposed by Republican Mike DeWine, would transfer duties and fines collected by dumping and countervailing duties to the injured steel companies. "Current law has not been strong enough to deter unfair trading practices," said Mr DeWine.

Officials said the actions taken by the administration – an acceleration of anti-dumping cases and bilateral pressure – had reduced imports. "It's too early to declare victory, but it's encouraging," said Bill Daley, commerce secretary.

Charlene Barshefsky, US trade representative, suggested the administration would support a bill easing requirements for an industry to get "safeguard" protection against surges.

French gastronomy turns up its nose at US threat

By David Owen in Paris

Producers of some of France's best known gastronomic products yesterday hit out at US moves that could see their exports to the US market subjected to 100 per cent tariffs.

"We do not understand why they have targeted Roquefort," said Erick Boutry, managing director of the Société des Caves de Roquefort, which accounts for about 70 per cent of production of the famous blue cheese made from ewe's milk.

"They are aiming completely at French gastronomy," he added. "The only thing not on the list is wine for the simple reason that the US wants to export wine to Europe. It is very tactless."

Marie-Pierre Pé, the secretary of the Comité Interprofessionel du foie gras, the foie gras producers' association, said the industry was "a bit fed up with being taken hostage" over disputes that had nothing to do with it. "We have already been blockaded in 1997," she said. "It is a bit annoying."

Jean-Charles Savignac, president of the Fédération Française de Trufficulteurs, said the body was "dismayed by a backward and masochistic measure".

Roquefort cheese, pâté de foie gras and truffles all feature on a preliminary list of mainly agricultural exports that could be subject to the tariffs if the European Union does not agree to lift a ban on hormone-treated beef.

The US says that if no settlement is reached by May 13, it will ask the World Trade Organisation for authorisation to implement the sanctions. The only consolation for French producers in the sectors at risk is that the US consumes a relatively small proportion of overall output.

According to Ms Pé, France exported 18 tonnes of foie gras, worth about FFr7m ($1.2m), to the US in 1998. This represented 4 per cent of exports and compared with an annual turnover for the industry of "at least FFr6bn". Nevertheless, the US move could, by Ms Pé's estimate, "hit two or three companies that are specialised in exports hard".

Mr Savignac said that in a good year the US accounted for about 10 per cent of overall annual truffle exports of about 100 tonnes.

Mr Boutry said his company sold about 400 tonnes of Roquefort a year worth FFr30m in the US; this compared with the group's overall turnover of about FFr1.9bn.

Though critical of the US move, Mr Boutry said he did not see why the EU had banned hormone-treated beef and described it as a protectionist measure. "I think we will ask the European Commission to pay the tariffs; if Europe does not comply with the WTO ruling, that is Europe's problem and not the problem of Roquefort producers."

Oil exporters insist output cuts will stick

By Robert Corzine in Vienna

The Organisation of Petroleum Exporting Countries yesterday ratified a new round of global oil production cuts in the latest initiative to support crude prices.

Ten Opec members agreed to cut more than 1.7m barrels a day from April 1. Additional voluntary cuts from non-Opec Mexico, Oman, Norway and Russia take the total promised reduction to just over 2.1m b/d.

Youcef Yousfi, Algeria's oil minister and the current Opec president, said the co-ordinated cut demonstrated that "Opec is still able to act collectively and contribute decisively to the restoration of oil market stability."

The fact that the often fractious exporters' group was able to patch over past policy differences relatively quickly and present a broadly united front testifies to the depth of the financial troubles facing many Opec states, which, along with big non-Opec exporters such as Mexico and Russia, are reeling from last year's 34 per cent decline in crude prices.

Although most Opec ministers were smiling broadly after the deal was sealed, sanctions-bound Iraq, which is not a party to the agreement, continued to criticise the way the cuts were allocated. Amer Mohammed Rasheed, Iraq's oil minister, agreed with the need for big output reductions, but insisted that Saudi Arabia, Opec's dominant member and the world's biggest oil producer, should have shouldered the full burden.

But the big issue that dominated yesterday's talks was whether the agreement would sustain recent rises in crude prices, which added about $3 a barrel in the run-up to the Vienna meeting. Rilwanu Lukman, Opec's secretary general, said producers would like to see prices back in the $15-$20 a barrel band in which they have traded for much of the past decade.

In recent days officials from Opec countries have mounted a lobbying campaign to convince the markets that this latest cut will be different from previous, widely-ignored initiatives. One senior Gulf Arab official said the main difference was that the latest cuts were "instigated by and approved by the highest national authorities. In that sense it is a political agreement."

Several industry analysts and oil company executives in Vienna said they thought the agreement was "basically a good one". But they warned that any further price rises might come slowly, given that the second quarter of the year is usually the period of lowest global oil demand and the likelihood that the markets will want to see actual cuts being implemented: "It looks workable," said Mehdi Varzi, oil analyst with brokers Dresdner Kleinwort Benson in London. "But the question mark is always Opec's staying power."

Saudi Arabia said all its cuts would be from shipments already contracted for April. But officials conceded that some other participating producers might only make their cuts in May. That means it could be June before the markets are in a position to judge how effective the cuts are likely to be in eroding the global crude surplus that has helped push prices to levels last seen in the mid 1980s.

Opec secretary general Rilwanu Lukman yesterday. He wants prices in the $15 to $20 band Reuters

Pragmatist vows to make ILO matter in a global economy

Robert Taylor and **Frances Williams** speak to the labour organisation's new chief about the formidable task ahead

Juan Somavia, the International Labour Organisation's new director-general, has set himself a formidable task: to transform what many see as a slow, cumbersome and low-profile institution into an active, modern body that can make an impact in the global economy.

Formerly Chile's United Nations ambassador and chief organiser of the UN's Copenhagen social summit in 1995, he is the first man to head the ILO from outside Europe and the US since its foundation in 1919.

In an interview with the Financial Times, he said his "mission" was to establish a "social pillar" in the new world architecture being created by other international institutions such as the World Trade Organisation, the World Bank and the International Monetary Fund.

"Unless most people feel the global economy is working for their benefit it will be vulnerable to social unrest," he said. "Social issues are not soft issues. On the contrary, they are tough."

They were bedrock issues that could win or lose elections because they had an impact on such fundamental aspects as the integration or disintegration of family life.

Mr Somavia does not believe social policy should be seen solely as an ILO concern, favouring closer collaboration with other agencies.

"One of the failings of the world's under-performing multilateral system has been its divisions into sectors when it should be integrated," he said.

But he sees a significant role for the ILO, whose 2,000 employees set international labour standards, advise governments on labour policies, job creation and working conditions, and demonstrate how macro-economic policies and labour market and social questions inter-relate. "We need to understand how social policy developments have an impact on economics."

Mr Somavia, 58, is an enthusiastic extrovert, keen to restore morale to the ILO secretariat and win the confidence of the governing body made up of governments, employers' associations and trade unions.

He wants to transform the organisation's 39 separate programmes into four "strategic objectives" in an attempt to focus on what matters. These embrace the promotion of fundamental principles and rights at work; the creation of greater opportunities to secure decent employment and income; an improvement in social protection; and a strengthened tripartism and social dialogue between states, capital and labour.

The ILO's $481m budget for the 2000-01 biennium seeks to further those aims. But seasoned officials point out that Michel Hansenne, his predecessor, had favoured something similar but ran into stiff resistance.

Success will depend on whether Mr Somavia's more open style of conducting business finds greater favour with the governing body. So far employers and union delegates seem impressed by his inclusive approach. His glad-handing style and willingness to talk to colleagues over coffee is a break with past stuffy attitudes.

But observers believe his emphasis on building consensus on virtually all issues could make it difficult for him to take firm decisions that involve a shake-up of the ILO's ageing bureaucracy.

Mr Somavia wants to create a new management structure in the ILO "responsive to new demands and emerging needs", such as flexible working practices and inadequate social protection systems. He is also keen to emphasise the importance of gender issues, insisting the ILO celebrate international women's day last week for the first time. "We must be leaders, not laggards, in giving gender equality a high priority," he said.

Juan Somavia: open style of conducting business

But above all, he is concerned about global unemployment and keen to see the ILO do something practical about it. "Current levels of worklessness are not sustainable," he argued. "Creating jobs must be a global priority." He nevertheless emphasised the need for what he calls "decent work" rather than job creation at any cost and he intends to make this a defining issue for the organisation.

Mr Somavia sees himself as a flexible pragmatist, a moderniser whose values are embedded in a mixture of social democratic and Christian traditions. But his fine words will count for nothing if they are not translated into effective action. Making the ILO matter again is a big task and he knows he does not have much time to do it.

S Africa fears local bodies not set for Year 2000

South Africa faces a "catastrophe" if its local authorities fail to prepare for the looming millennium computer bomb, Jay Naidoo, posts and telecommunications minister, warned yesterday, Reuters reports from Johannesburg.

Many older computer systems in South Africa and elsewhere abbreviate the date year to two digits instead of four, for example 99 for 1999. Unless changed, computer programs on these systems may next January mistake 00 in 2000 for 1900 – the so-called millennium bug – resulting in possible system failure or incorrect processing of date-sensitive data.

He said there was little evidence that the problem had been fixed in the country's 832 local authorities.

"We have had problems with disclosure of information from municipalities. One can only assume that the level of compliance is very low," Mr Naidoo said.

"The consequences of not ameliorating the problem are huge. There would be a catastrophe if municipalities don't move on these problems," he said.

He said 50 per cent of federal government computers had been checked and fixed to deal with the year 2000 problem and that there was a target of 70 per cent reaching this status – being millennium compliant – by the end of the year.

The government's Year 2000 Support Centre – which estimates the country's compliance programme at R35bn ($4bn) – said local authorities were one of the potential weak links in the country's business supply chain.

Most local authorities buy essential supplies as electricity and water from national utilities and sell units to communities and companies. Services could be interrupted if their computer systems fail because of the millennium bug, he said.

Mr Naidoo said the authorities were legally bound, under regulations gazetted last month, to be millennium compliant, failing which they could be charged with contravening local government legislation.

A R21m millennium bug-busting project has been announced to help municipalities to manage the problem. The project would be funded by the private sector which is worried about disruptions in essential services such as electricity and water supplies.

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BOARDROOMS MINISTER SAYS GOVERNMENT WILL ACT UNLESS GREATER LINK IS MADE TO PERFORMANCE

Executive pay legislation threat

By Jane Martinson, Investment Correspondent

The government yesterday warned shareholders and company directors that the government would legislate unless it saw evidence of executive pay being linked more closely to performance.

Stephen Byers, chief industry minister, told a corporate governance conference in London that ministers would change the law "if best practice doesn't succeed in creating greater links between pay and performance". Two changes considered include forcing shareholders to vote separately on remuneration policies at annual meetings and making directors stand for annual re-election.

But Mr Byers made clear that the government wanted to see companies and shareholders changing voluntarily.

"The government will be monitoring the current round of annual general meetings for evidence of a more positive response from companies and institutional investors," he added. "We want to see companies choosing to seek shareholder endorsement for their remuneration policies."

He refused to comment on the £1.6m ($2.6m) settlement for Martin Taylor, the former chief executive of Barclays Bank. Barclays paid its directors a total of £15.2m in a year in which operating profits on ongoing businesses fell 20 per cent to £1.99bn.

Mr Byers told the meeting there was also a case for "radical reform of the company meeting".

The annual meeting proposal is part of a root-and-branch review of company law launched by Margaret Beckett, Mr Byers' predecessor at the same conference last year.

Mr Byers' speech, at the seventh annual conference organised by the Pensions and Investment Research Consultants, cheered corporate governance activists.

● Alastair Ross Goobey, chief executive of Hermes Pensions Management and one of the City's best-known fund managers, yesterday threatened to resign from the council of the Lloyd's insurance market if the Financial Services and Markets bill is passed in its current shape, George Graham writes.

He complained that the bill made no distinction between nominated members of the council, such as himself – effectively non-executives – and working Lloyd's members. As a council member he could have his authorisation as a financial services practitioner removed by regulators because of problems in the Lloyd's market and thus be barred from his main job as a pension fund manager.

Pinochet affair may pave the way to a UK supreme court

The law lords fiasco and the government's reforms have given hope to supporters of wholesale change. **Andrew Parker** reports

The fiasco that accompanied the law lords' consideration of the Augusto Pinochet extradition application will stimulate reforms that may lead to a UK supreme court, ministers believe.

The House of Lords had to set aside its ruling that the former Chilean dictator did not enjoy immunity from prosecution because Lord Hoffman failed to make known his links to Amnesty International. The disclosure of his ties in December caused acute embarrassment to the standing of the law lords. The House of Lords, the unelected upper chamber of parliament, also acts as the highest court of appeal.

The Labour government faces pressure from its own ranks to resurrect the party's commitment to create an independent judicial appointments commission. Lord Irvine, lord chancellor, abandoned the pledge soon after the 1997 election, preferring to continue with the system of appointments on merit. By yesterday, 66 MPs had signed a House of Commons motion demanding a "transparent system".

But some ministers are contemplating a more ambitious reform: shifting the law lords from the House of Lords to a court of their own away from parliament. The UK is the only country in the western world where judges sit and vote in the legislature.

Supporters of a supreme court believe the case for a full separation of powers has been assisted by the government's constitutional reform programme.

Incorporation into UK law of the European convention on human rights means judges will have to preside over politically contentious disputes.

Also, the little-known judicial committee of the privy council – an unelected group of senior politicians and other figures who advise the monarch on constitutional matters – will preside over disputes between the UK government and the new regional assemblies in Scotland, Wales and Northern Ireland.

It is "more likely than not" that the UK will have a supreme court in the next century, according to a Home Office source.

Ministers hope the case for change will be made by the Royal Commission on Lords reform, which will take a view on whether the law lords should continue to sit and vote in the second chamber.

Robert Hazell, director of the influential Constitution Unit at London's University College, writes in the new book *Constitutional Futures*: "Full reform of the House of Lords may provide the spur to consider the need for a supreme or constitutional court for the whole UK, which is properly resourced and more clearly independent from any of the UK's constituent governments."

Ministers also hope the judges themselves will advocate the case for a supreme court. Lord Ackner, a retired law lord, says: "I think the movement towards having everything open and fully explained and not raising any problems with the European position will sooner or later result in the law lords being separated off from the political part of the second chamber.

Anti-Pinochet protestors hammer crosses bearing the names of the 'disappeared' into Parliament Square in London Reuters

"Pressure will come from the politicians ... It's quite possible that the royal commission may express a very firm view with regard to the separation of powers and the government may take this up on the basis of a medium to a long term commitment."

A government member says preliminary work is being done in the lord chancellor's department. He adds: "The more it becomes an elected, party political House of Lords, the more the argument must be that the anachronism, the historical position of the judges, cannot continue. There is no legislature in the world that includes judges."

Watchdog warns of 'chaotic' computer projects

By David Wighton, Political Correspondent

Government departments are being plunged into chaos by over-ambitious computer contracts, the National Audit Office warned yesterday.

The government spending watchdog said there were many examples of projects going wrong because they proved too ambitious despite "enthusiastic bids" from prospective suppliers.

The warning came in a report on the problems of the Home Office's £77m ($125m) immigration service information system being implemented by Siemens Business Services. The project has been delayed by six months, creating a serious backlog of applications from executives wishing to travel to the UK.

David Davis, chairman of the House of Commons public accounts committee, said the Siemens project seemed to have similar problems to the social security department's troubled national insurance system.

"The deal seems to be a good one for the taxpayer and will deliver cost savings, yet the system is in chaos," he said. Mr Davis pointed out that while there will be a substantial transfer of risk to Siemens ultimately, the taxpayer suffers if the project is delivered late.

"For future projects, the department should ensure that projects are not overly ambitious, they must be certain that they are achievable given the complexities of the business." He echoed the NAO's warning that departments "must not allow themselves to get carried away by the enthusiasm of prospective suppliers".

The Home Office yesterday welcomed the NAO's report and promised further action. Mike O'Brien, the Home Office minister, said: "We are working hard with Siemens to get back on track."

NEWS DIGEST

INTERNET LISTING

Assets seized from Nazi victims to be returned

The government will today publish on the internet at www.enemyproperty.gov.uk the names of 5,000 people whose bank accounts and other assets were appropriated by the British authorities during the second world war. Many of the accounts were those of Jews and other victims of the Nazis from Poland, Yugoslavia, the Baltic states and what was then Czechoslovakia. They invested their money in Britain to avoid it being stolen by the Germans.

The government has promised to return the seized assets, uprated to today's values, to any holocaust survivor or their heirs who can prove ownership. Claims forms will be issued today. The government last year released the names of 25,000 people from Germany, Romania, Bulgaria and Hungary who had had their money seized. Lord Janner, chairman of the Holocaust Educational Trust, welcomed the move: "This was a shameful episode in British history and one which we are delighted this government has agreed to redress. Britain's action will be an example to countries around the world." **Simon Buckby, London**

NUCLEAR WASTE

Anger at underground proposal

Environmentalists responded angrily yesterday to a recommendation from a House of Lords committee that British nuclear waste be buried deep underground. Greenpeace described the science and technology committee as a "pack of ostriches". The committee's investigation was triggered by government rejection of a planning application in 1997 to build a nuclear waste dump near the big Sellafield reprocessing plant in north-west England. Lord Tombs, who chaired the Lords inquiry, said burying nuclear waste deep under ground was internationally accepted as the best option. The Radioactive Waste Disposal Company, supported by representatives from the nuclear industry and the Ministry of Defence, would carry out the works. **Andrew Taylor, London**

WORKS OF ART

Van Dyck given in lieu of tax

One of Van Dyck's greatest paintings – his portrait of the diplomat, the Abbé Scaglia – has been accepted by the UK government in lieu of inheritance tax. The tax bill of the heirs of the second Viscount Camrose, who died in 1995, has been reduced by £9.4m ($15.3m) as a result. The painting has been on loan at the National Gallery in London since 1996 and will now stay there. Negotiations between the gallery, the Treasury and the Camrose heirs have been tough because the Treasury is reluctant to accept works of art in lieu of tax. The sum agreed makes this the most expensive painting accepted.

● The government has temporarily blocked the export of a Rembrandt oil painting to give British galleries a chance to raise the £9.3m asking price. The sale of *Portrait of an Elderly Man*, painted in 1667, had been agreed between the owners, the estate of Lord Cowdray, and a buyer from the Netherlands. But Alan Howarth, the arts minister, decided to block the deal until June 22 to give British buyers a chance. **Antony Thorncroft, London**

BUSINESS CONCESSIONS TAX BREAKS RECOMMENDED TO ATTRACT INWARD INVESTMENT IN COMPETITION WITH IRISH REPUBLIC

N Ireland subsidy framework to be dismantled

By John Murray Brown in Belfast

An end to Northern Ireland's highly subsidised special economic status was yesterday signalled in proposals to introduce tax breaks and to cut *grant support for industry* in the region.

Adam Ingram, UK government minister for the Northern Ireland economy, unveiled the proposals in a 264-page document to be considered by the new power-sharing assembly.

The report, the result of more than 18 months of discussion between the private sector and the local Department of Economic Development, recommends that "*fiscal* incentives become a more important part of the government's financial assistance package".

The economic spokesmen of political parties in Northern Ireland were briefed yesterday. The next plenary session of the assembly is not due until next week, by which time the UK government hopes the parties will be able to resolve the dispute over the handover of paramilitary weapons and set up the region's new executive.

In the meantime, Mr Ingram will present the report for debate on Thursday to the Northern Ireland Grand Committee in London. This comprises the 16 Northern Ireland MPs who take their seats in the House of Commons – but not the two MPs from Sinn Féin, the IRA's political wing, who have delined to take their seats.

The most radical proposal is for a low corporate tax rate for new inward investment for five years. The report acknowledges the difficulties of securing support from the UK Treasury and the European Union, which will see it as a state aid.

But it says Northern Ireland needs to address the disparity with the Irish Republic, where tax rates are at 10 per cent for manufacturing until 2002 and thereafter at 12.5 per cent for all business.

The report says the Treasury may seek to offset lower tax revenues by reducing the Northern Ireland public expenditure block, around £9bn ($14.7bn). However, the report concludes that "the goal is justified and should be pursued vigorously". Northern Ireland should "not lose any opportunity to catch the attention of inward investors", it says.

However, a senior member of the pro-British Ulster Unionist party dismissed the idea as a "non-runner", given Treasury opposition to breaking fiscal unity across the UK. The Ulster Unionists are likely to oppose any move that dilutes the status of Northern Ireland as part of the UK.

The moderate nationalist Social Democratic and Labour party says it will back tax proposals that seek to harmonise the tax regime with the Irish Republic.

The other tax measures recommended are an extension to the 100 per cent capital allowances currently available to small and medium-sized businesses.

Inflation dips below ministers' target for first time

By Richard Adams and Christopher Adams

Inflation slipped below the government's target for the first time last month, raising the possibility of further interest rates cuts by the Bank of England, the UK central bank.

Gordon Brown, chancellor of the exchequer, welcomed news that the annual rate of underlying inflation weakened to 2.4 per cent in February; the government's target *is 2.5 per cent. The January* figure was 2.6 per cent.

"We are on course to meet our inflation target over the year," Mr Brown said. "We are meeting our long-term goal of low inflation and sustained growth."

February was the first time that underlying inflation – the retail prices index excluding mortgage interest payments – has dipped below the target since Mr Brown put the Bank of England in charge of monetary policy.

The all-items RPI showed a further easing of inflationary pressures. The annual rate slowed from 2.4 per cent in January to 2.1 per cent last month. The all-items index stood at 163.7.

On the harmonised index *of consumer prices*, used by the European Union, the rate of price rises slowed by *0.1* percentage point to 1.5 per cent. That brought UK inflation to the level of Italy and Spain but above the EU average of 0.9 per cent.

European frigate project set to win reprieve

By Alexander Nicoll, Defence Correspondent

The troubled £8bn ($13bn) Horizon frigate project appeared to have won a reprieve yesterday following a crisis meeting between the British, French and Italian defence ministers.

Britain had threatened to pull out of the programme to build a new generation of European frigates, following years of disagreements over design and construction.

The ministers, meeting at a French military base on Monday evening, decided to *give the companies that are* due to build the ships another four weeks to come up with new proposals and present them to ministers.

In a sign that tensions were beginning to relax, they also agreed to initial contracts for development of the Principal Anti-Air Missile System, which is to be the main weapons system for the ships.

Britain had previously refused to give the go-ahead for PAAMS – itself an important advanced-technology European collaborative project – until it was convinced there would be satisfactory arrangements for building vessels on which it would be sited.

A UK official said that after the positive meeting on Monday a British official said the UK was confident it would have a ship either through collaboration or a national programme.

France and Italy had made clear they attached great importance to Horizon as a political symbol of closer co-operation between European Union members on security matters.

However, George Robertson, UK defence secretary, had objected that the arrangements proposed by a *joint venture consortium* – comprising GEC-Marconi of the UK, DCN of France and Orrizonte, an Italian joint venture – did not give confidence the ships would meet targets for delivery dates, cost and performance.

At the heart of the dispute is the combat management system, which British Aerospace and DCN are competing to supply. Under the *new* proposal, Marconi – which is being sold to BAe – would supply a system to the Royal Navy, and DCN to the French navy.

This was intended to be a face-saving formula allowing the project to continue as a collaboration, although with national solutions for the contentious elements. A British official insisted that an integrated solution was still being sought.

Champagne sales fall as economy is weak at the knees

The UK is the world's biggest market for 'bubbly' and it provides a reasonably reliable index. **Christopher Adams** reports

Imports of champagne, which tend to mirror trends in economic activity, have slowed sharply.

A monthly index of bubbly *sales to the UK, the world's* biggest market, shows that even the most lavish consumers have curbed spending.

The Champagne Agents' Association, a trade body, says imports grew at an annual rate of 7.8 per cent in 1998 – to 24.2m bottles – compared with 11.8 per cent the previous year.

The picture is consistent with evidence of weaker economic activity.

Almost all the slowdown occurred during the latter part of the year, when heightened concern about job security damaged consumer confidence.

Champagne sales historically have fallen steeply during economic retrenchment. *Imports fell by a third in* 1991, in the depths of the previous recession.

Volumes have risen strongly during periods of rapid expansion. Imports reached a record in 1989 at the height of the "Lawson boom" – when Nigel Lawson was chancellor of the exchequer in Margaret Thatcher's final year as Conservative prime minister.

Households cut discretionary purchases first when they rein back spending to protect against a downturn.

Champagne is therefore a reasonably reliable indicator of economic activity because of, rather than despite, its expense.

Champagne may also now be more sensitive to spending patterns as it is more widely drunk.

"Without a doubt, the consumer has been more cautious and that's reflected in *the figures," said Guy Salter*, managing director of Laurent-Perrier UK and chairman of the association.

Sarah Heward, managing director of Corney & Barrow Wine Bars, owner of a string of venues across London, said the the slowdown began in October, when the emerging markets crisis and fears of City of London job losses caused sales to decline.

Volumes have been rising since, but only at about 2 per cent annually compared with an equivalent rate of 8 per cent a year ago. The weaker level of champagne consumption is consistent with a moderation in total consumer spending evident in official figures. Annual growth in household expenditure fell from 6.6 per cent to 5.0 per cent in 1998, the Office for National Statistics said, yesterday.

Households are also saving more.

Expressed as a ratio to total available resources, savings grew from 6.8 to 7.4 per cent in the fourth quarter of last year.

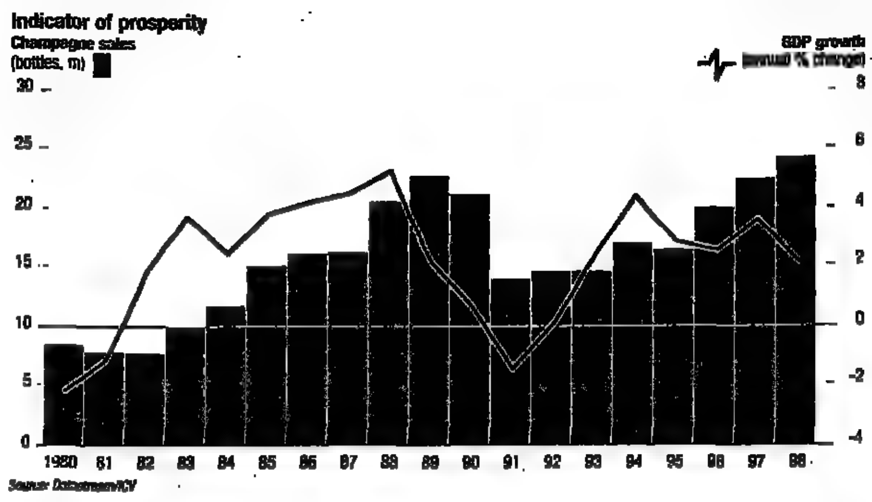
But the association's data show there may be limited cause for concern.

"In the run-up to Christmas, hotels and restaurants were concerned that bookings would be cancelled, so they didn't put orders in until the last minute. In fact, few functions were cancelled," said Mr Salter.

Champagne's lethargic performance has surprised producers, who are predicting a surge in demand ahead of the millennium celebrations.

Spending in bars, clubs and on food and drink over the New Year is expected to be around £200m ($326m) more than usual.

Worldwide demand for champagne could exceed the 330m bottles that are available.



JUNGHEINRICH UK INVESTMENT MAY BE CUT

Lift truck group warns on levels of productivity

By Peter Marsh in London

Jungheinrich of Germany, Europe's second biggest lift truck producer, warned it might cut back investment at its loss-making UK factory unless productivity improves to the level of its plants in continental Europe.

Hans-Peter Schmohl, chairman, said "cultural differences" in the UK were partly responsible for output per person in Britain being half that in the company's German and French factories.

The UK workers did not have the same attitude *towards quality, he said.*

"We must train them [the company's British employees] not to accept any faults in assembly," said Mr Schmohl. "They must learn to cry out if something is wrong."

He added that he did not want to attach blame to the 700 workers at the UK plant, in Leighton Buzzard in southern England, which the company bought from receivership four years ago.

But his comments underline the potential impact on inward investment of Britain's lower productivity. BMW, the German car group that bought the Rover carmaker in 1994, has in recent weeks highlighted poor productivity at Rover's Longbridge factory in the English Midlands as holding back the parent company's performance.

Mr Schmohl said the problems at Leighton Buzzard – which has made undisclosed losses since Jungheinrich bought the site – had worsened because the strong pound has eaten into export margins.

A UK commitment to enter the single European currency would "help extremely" by providing "extra stability" for sterling, said Mr Schmohl.

Jungheinrich has given the UK plant until the end of the year to lift productivity, with the aim of preparing the site for profits from next year.

Mr Schmohl said he was heartened by recent progress which has seen a team of consultants from Bourton, a specialised UK management consultancy, supervising a "re-education programme" for about 300 workers. "The results are going the right way," said Mr Schmohl.

Productivity has also been affected by introduction of new lift truck designs at the English factory, which was run formerly by Lancer Boss, a UK lift truck company.

Jungheinrich has invested DM30m ($16.8m) in the site since it took over. The company hopes to make 8,000 trucks a year at the plant by 2000, up from 6,000 last year. It has two plants in Germany, one in France and total sales last year of DM2.6bn.

Jacket maker declines to shift output from UK

By Chris Tighe in Newcastle upon Tyne

J Barbour & Sons, the maker of waxed jackets, said yester*day it remained* committed to manufacturing in the UK, unlike many other clothing companies that have moved production to countries with lower labour costs.

Mrs Margaret Barbour, chairman and managing director of the 105-year-old company, took a pay cut from £1.3m ($2.1m) to £236,322 in the year to end August 1997 as the company's turnover and profits fell. She said performance and prospects for the company, based in South Shields in north-east England, were now much brighter.

Mrs Barbour said Barbour, as a private company with strong financial reserves, could do things differently from other companies that have relocated. "We don't have cash flow problems, borrowing problems; our strength is we have ploughed the cash into the bank to help us through lean times and expansion," she said.

She added that the fact that the company's shareholders were all women – her mother-in-law, herself and her daughter – was also important. "When men control companies like this they draw vast sums out and don't leave the company as cash rich as Barbour," she explained.

The *women*, and the Barbour family trust, were entitled to dividends totalling £5m in 1997 but the money was left in the company.

In the year to the end of August 1998, Barbour's turnover was £36.7m, down from £43.8m in 1997 and £60.7m in 1996. A management shake-up and cost cutting review, which included the closure of two factories last year, have made the operation much more efficient, said Mrs Barbour.

She said the company, which employs 600, saved money by weaving its own basic cotton cloth and linings at its plant in the Scottish borders. This month it opened its first in-store shop, in Harrods in London. Similar projects in other European and in North American cities are under discussion.

Recent wet weather in the UK and the decline in sterling have also helped Barbour. Its turnover rose to £17.8 in the six months to end February, from £15.5m in the same period last year and pre-tax profits were £2.3m, against £1.5m.

MANAGEMENT NOKIA

Hello world, Helsinki calling

Tim Burt on the distinctive corporate culture at the Finnish telecommunications group

When staff at Nokia are summoned to meetings in Berlin, Shanghai or Brussels, they never leave the Finnish telecommunications group's headquarters.

Every meeting room at Nokia's new offices at Espoo, on the outskirts of Helsinki, is named after an international city. So today's human resources meeting may take place in Brussels, while next door the consumer products managers will be talking in Vienna, adjacent to a marketing discussion in Copenhagen.

Nokia says the scheme exemplifies its global horizons, the result of strong international growth over the past decade. Once a conglomerate with interests ranging from tissue paper to real estate, Nokia has transformed itself into a dedicated telecommunications company. In 1998, it became the world's largest manufacturer of mobile phones, producing more than 40m handsets.

The workforce increased by almost 30 per cent last year to 44,543 people employed at 28 sites in 11 countries. At the same time, sales rose 51 per cent to FM79.2bn ($14.5bn), operating profits jumped 75 per cent to FM14.8bn and market capitalisation rose FM110bn to FM356bn.

Despite economic crises in emerging markets and signs of faltering growth in western Europe, Nokia is optimistic about its performance this year. Rapid expansion of the workforce is expected to continue, with as much as a third of staff dedicated to research and development. Managing that rapid growth has proved one of the company's greatest success stories.

Pekka Ala-Pietilä, promoted last week from deputy chief executive to group president, says the company owes much to its blend of international enterprise, constant refining of products and Finland's entrepreneurial spirit.

"Our corporate culture is one of the key contributors to meeting our ambitious growth targets. Our people know that the difference between good and excellent is only 2 per cent, and they know what we expect of them," he says.

Mr Ala-Pietilä believes many new recruits benefit by embracing the company's values, which are centred on customer satisfaction, respect for the individual, achievement and continuous learning.

That view is echoed by Mikael Frisk, vice-president of Human Resources, who adds: "The basic principles of Nokia are cascaded down to every employee. We tell them that this is an international company with a Finnish soul.

"Finns do not make a big noise about themselves, but there is an extraordinary determination to get things done quickly and without fuss. We do not just throw people in at the deep end, we also make sure the water is very cold – it encourages you to swim a bit faster."

At Nokia, customer satisfaction means abandoning traditional product cycles and continually updating and refreshing its portfolio. Mr Ala-Pietilä says that by releasing innovation into the market, Nokia can prevent handsets becoming a commodity item. "Customers appreciate new functions and we can deliver them more frequently by exploiting modular platforms and different technology combinations."

'We tell staff this is an international company with a Finnish soul'

The latest lap-phones and cellphones with fax and internet connections are leading a generation of products bridging the gap between ordinary handsets and palm-top computers. "This company is not about producing basic consumer products. We are looking for software solutions in wireless communication," says Mr Ala-Pietilä.

Nokia claims the company fosters respect for the individual by abandoning traditional management-worker relationships. Hierarchy is discouraged. Young engineers – the average age of "Nokians" is 32 – can question senior management decisions. Indeed, they often find themselves drawing up new policies as members of so-called "cross-function teams", employees from different parts of the organisation who come together to debate strategy. In a typical session, the groups play a game in which different employees turn over a card – perhaps listing a particular technology or human resources problem – and the group then comes up with a solution.

During such meetings, job titles are largely ignored. "It is not at all American," says Mr Frisk. "It is a chance for subordinates to tell managers what they think of them."

Managers, in turn, have a responsibility to transfer knowhow throughout the company. Nokia has called this process "competence investment", and last year established learning centres in Finland, China, Italy and Singapore.

However, this nurturing is not allowed to threaten individuality. "It is about accepting people who are totally different," says one personnel manager. "If they don't fit in one department, they probably will elsewhere. The only people who find it difficult to work at Nokia are those who need careful instructions every day."

Given that more than half of Nokia's workforce has been with the company less than three years, maintaining the distinctive culture may prove difficult. But the emphasis on new ideas and individual expertise has worked so far. "What all this means is that we are much more forward-leaning than our rivals," says Vesa Tykkyläinen, vice-president of system marketing and sales. "It is transforming Nokia from a cellular phone company into a software enterprise; the prize will be leadership of the internet and wireless communication industry."

INFORMATION TECHNOLOGY CEBIT

Smart communication in your pocket

We have seen the future and it is pocket-sized, battery-operated, slim and seductive. The next generation of pocket communicators will deliver voice and multimedia data services, including video, to their users anytime and anywhere, *write Christopher Price and Paul Taylor.*

Prototypes of the socalled third-generation smart communicators, on show at the CeBit information technology fair in Hanover which ends today, are designed to make information accessible, usable and immediate.

In addition to voice, these devices will make possible the sending of data over the airwaves from device to device, and they will be able to take files from the internet and send them from mobile communicator to the office or home PC.

In Hanover they competed with web-surfing wireless communicators and integrated voice and data handheld terminals that enable ordinary telephone calls to be made over the internet. There were also webphones, which will allow the sending and receiving of electronic mail as easily as a voice call.

The CeBit fair had it all. There were mobile phones equipped with a port for a smart card enabling users to download digital cash over the airwaves, and dual-band handsets designed to work anywhere.

Exact Sprachsynthese, a German technology group, was showing a pocket-sized, satellite-based and voice-activated navigation system. C Technologies of Sweden had a digital marker pen with photographic memory.

For today's technology, it was the giant consumer electronics groups that stole the show. Mobile phones were smaller, slinkier and smarter. Hand-held digital assistants were slimmer, lighter and came with colour screens for the first time. Notebook computers were more powerful, brighter and had longer-lasting batteries. Digital cameras were sleek, compact and able to take higher resolution images.

Among the stars of the show were the world's smallest multimedia, colour, palm-top computer from Casio. Sharp's ultra-thin silver notebook computers drew attention. The Japanese group also demonstarted a digital camera the size of a cigarette packet and capable of recording an hour of video on a 36Mbyte memory card.

Meanwhile, Motorola weighed in with the V3688, the smallest mobile phone. Digital cordless telephones like Samsung's SPR-5260, based upon the Dect (Digital European Cordless Technology) standard, have quickly entered the mainstream and were strongly in evidence.

Both Hewlett-Packard and Compaq launched Palm PC, which is designed to run Microsoft Windows CE programmes in colour.

3Com's Palm division was showing the new Palm V machine, a super-slim pocket PC encased in smart brushed metal. On Sony's stand, which attracted many viewers, the Japanese consumer electronics group was showing off the latest additions to its Vaio line of ultra–slim, lightweight notebook PCs with their high-fashion purple and silver livery.

Indeed, many of tomorrow's gadgets are designed to appeal not only to technophiles and technology geeks, but also to fashion-conscious consumers for whom technology must be fun, "cool" – and preferably pocket-sized.

JOHN W. HUNT
ADVISES

A serious case of guru fatigue

Cynicism is likely when chief executives usher in a series of consultants, but change can be for the good

Dear Professor Hunt,
"I work for a financial services group in New York. In my 15 years with the firm I have seen chief executives come and go: three in the last four years alone. Each brings with him or her a consultant and we embark on another change programme. Each time it is sold to us as the seminal approach in this particular field, but never turns out to be such. This week I have been told that I am to attend your Leadership for Change programme at the London Business School in May. Will you tell me anything that I have not been told before?"

I can understand your cynicism. But try to keep an open mind. The consultants and executives share the same goal: the initiation of effective change that enhances the performance of the company and the experiences of employees.

The problem, for academics and executives alike, is that we have limited knowledge of what makes organisations work. Our combined ignorance has created a huge industry seeking to unearth answers. On the one hand, academics conduct ever more research and refine ever more numerous theories. On the other, executives attempt to manage these complex associations of individuals by buying whatever small insights we may offer, hoping that each will be more useful than the last. What we cannot give you is a right answer, simply because there is no right answer.

However, this should not be perceived as a reason to give up the quest altogether. There are always improvements to be made. Nevertheless, cynicism is to be expected. Organisations, like any form of human association, are full of contradictions and paradoxes.

Managers at all levels preach loyalty, open communication and fairness, despite the fact that loyalty is undermined by decisions that are taken routinely without involving those whose lives will be affected; that communication is never totally open; and that fairness is not a characteristic of most reward systems.

Change programmes are invariably attempts to adjust the distribution of power such that some inequities or inefficiencies may be reduced. However, all too often they are presented as some panacea and consequently few live up to expectations.

Disillusionment is inevitable. And this year's answer, like the last, begins to lose momentum and fades into history as another non-event.

Remember, though, that while it may not tally with your experience, change programmes can and do work – sometimes with dramatic effects, often quietly and incrementally. Unfortunately, because there is often so little for anyone involved to see, many chief executives are convinced that real change occurs only when based on what they call structural change, whether redesigning the hierarchy or privatisation or a merger or an acquisition.

The simple truth is that effective behavioural change occurs only when those involved want to change. Most managers face this fact daily: they do not have the option of a radical structural redesign. These changes are not based on threats but on seeking a better way to redistribute power so that the inequities or inefficiencies of collective effort may be reduced.

The good news is that each generation and each research discipline adds a little more to our understanding of how to change organisations.

Second, from your extensive experience, have patience with those who want to change the company. Despite your cynicism, get involved – you must know a lot about your firm which could be helpful to your new chief executive. You never know, this time it might make a crucial difference.

As for what I might tell you that you haven't heard before – well, our approach is based on 25 years of helping firms to initiate change. The focus of our course is on assessing what may work for you and your firm. We aim to share experience. We do not have time for guru-type, single-theory pronouncements. If only it were so simple.

John W. Hunt is Professor of Organisational Behaviour at London Business School and a consultant to private and public sector clients. This column appears fortnightly.

LOUISE KEHOE
IN SAN FRANCISCO
EAGLE EYE

E-economy turns world upside down

Developments in IT are contradicting usual commercial assumptions

What if transport, property and labour were cheaper by half every 18 months? How would that affect the outlook for your business, and for that matter, your personal spending?

This was the first of half a dozen mind-benders posed by Joe Carter, head of Andersen Consulting's research laboratories, over lunch recently. The question was not good for the digestion.

Think about it. Instead of expecting rising prices, you have to assume they will decline. So a sale this month will bring you higher profit margins than one you make next month. On the other hand, shipping costs may be lower if you wait.

As a consumer, you might be inclined to put off purchases for as long as possible. As an employer, you are sure to favour short-term contracts. In other words, turn the world upside down.

For most businesses and consumers, the prospect of a continuous steep fall in prices may seem so remote that the question is hardly worth considering. Yet in the "electronic economy" the scenario suggested by Carter's question is not a stretch of the imagination. It echoes "Moore's Law", put forward in the early 1980s by Gordon Moore, one of the founders of Intel, that the complexity of semiconductor chips doubles every 18 months.

Transport – the movement of information – is getting cheaper as more powerful computers and higher bandwidth networks speed information on its way.

Property, or the virtual equivalent, is the internet store front, affordable by almost any business and indeed many individuals.

The electronic labourer is a computer "agent" – a piece of software that scours the internet in search of information.

In the electronic economy, buyers will soon have "perfect information". In other words, consumers can find all suppliers of a particular product and compare prices. This turns even the most complex and sophisticated products into "commodities" and sellers of products into sellers of services that deliver, support and maintain the physical products.

Almost every day now, we hear from Silicon Valley of start-up companies being formed to take advantage of this new "electronics economy" – creating online markets or providing services to online merchants. Information technology will change your business – perhaps incrementally, perhaps radically. The only question is when. It is worth thinking about, no matter how crazy the initial question might sound.

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In the history of the Silicon Valley, Xerox Parc is famous for technology breakthroughs. It was there that the original personal computer "graphical user interface" was created, inspiring Apple Computer's Macintosh software.

Parc's researchers created early computer networks, personal computers, laser printers and a host of other prototypes. They contributed fundamental advances in semiconductor chips, computer languages and computer architecture. Yet few of these technologies found their way into Xerox products.

Rather, the laboratories fertilised numerous start-up companies and trained a cadre of top technologists. Today, Xerox Parc is best known for the commercial opportunities that were missed in applying its inventions. For all its acclaim, Parc has become the model for "how not to do it" in corporate research laboratories.

Andersen Consulting's research laboratories are the polar opposite of Parc. Instead of trying to invent technologies, Andersen is inventing applications. "We bridge the gap between technology and business," says Carter.

Purists might say this is not real research, but a little of Carter's attitude might have gone a long way at Xerox Parc. As Steve Jobs, Apple co-founder, has said: "Xerox could have owned the entire computer industry . . . could have been the IBM of the 90s. Could have been the Microsoft of the 90s."

The story of Xerox Parc's technological triumphs and its parent company's commercial blunders is retold in a new book that brings the history alive: *Dealers of Lightning – Xerox Parc and the Dawn of the Computer Age*, by Michael Hiltzik (Harper Business). It might well have been subtitled: The Soul of Silicon Valley.

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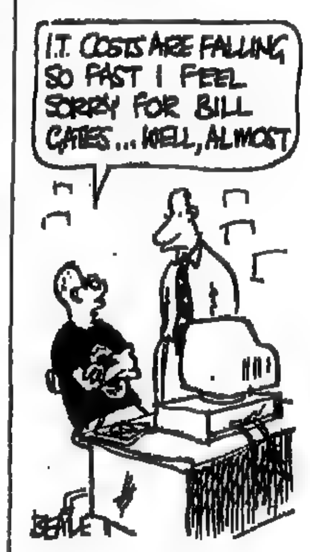
Microsoft plans to incorporate copyright protection technology in a future version of Windows.

This is not an attempt to prevent software copying. Rather, Bill Gates explained in a recent interview, the company is responding to the music and video industries' fears that PCs could be used to pirate their products. Whether it is a matter of downloading music from the internet or copying CDs, the PC poses the same kind of threat as the copying machine or the tape recorder did to text and music publishers in the past.



Those fears were overblown. Most people still prefer to buy original copies of books, magazines and music recordings. Yet the prospect of consumers being able to make high-quality, digital copies of music and video has the entertainment industry in a tizzy. "One outcome might be that they come up with formats that do not run on a PC. They are really talking about that," said Gates. His goal is to make sure all audio and video releases can be "played" on a PC.

Hence the plan to incorporate "digital rights management" software into Windows. It makes good sense from a business perspective, but it will not enhance Microsoft's popularity among the youngsters who are happily downloading free recordings of the latest recordings from web sites that use the MP3 digital recording standard.

However, in the long run, those MP3 sites are doomed if the music industry's fears of piracy are not calmed. On this one, Bill has got it right, although he will probably not get the credit.

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While we are on the subject, you probably know about MP3 if there are teenagers in your family. Recordings are available over the internet, but finding them on MP3 sites has been a real chore.

Now comes relief for those hard-working teens. Point them to the new MP3 "meta search" web site (*www.mp3meta.com*). Personally, I could not find any music I liked, but a list of top artists – supplied by my in-house experts – produced lots of noise.

THE ARTS

The video renaissance

Bill Viola's installations are in the great tradition of humanist art, says **Lynn MacRitchie**

In the quiet of the Dominican Cloister in Frankfurt, a huge artwork shines out in the dim interior. Organised in a three panel composition like a traditional Christian altarpiece, it shows on the left a young woman suffering the travails of giving birth and on the right an old woman, lying open-eyed but motionless in bed, seemingly on the very point of death. The central panel is filled with a mysterious figure shrouded in white, which seems to be floating in dark water. Light glows from the images, drawing the viewer towards them, the better to see what is happening to these larger-than-life but oddly familiar people shimmering on the cloister wall.

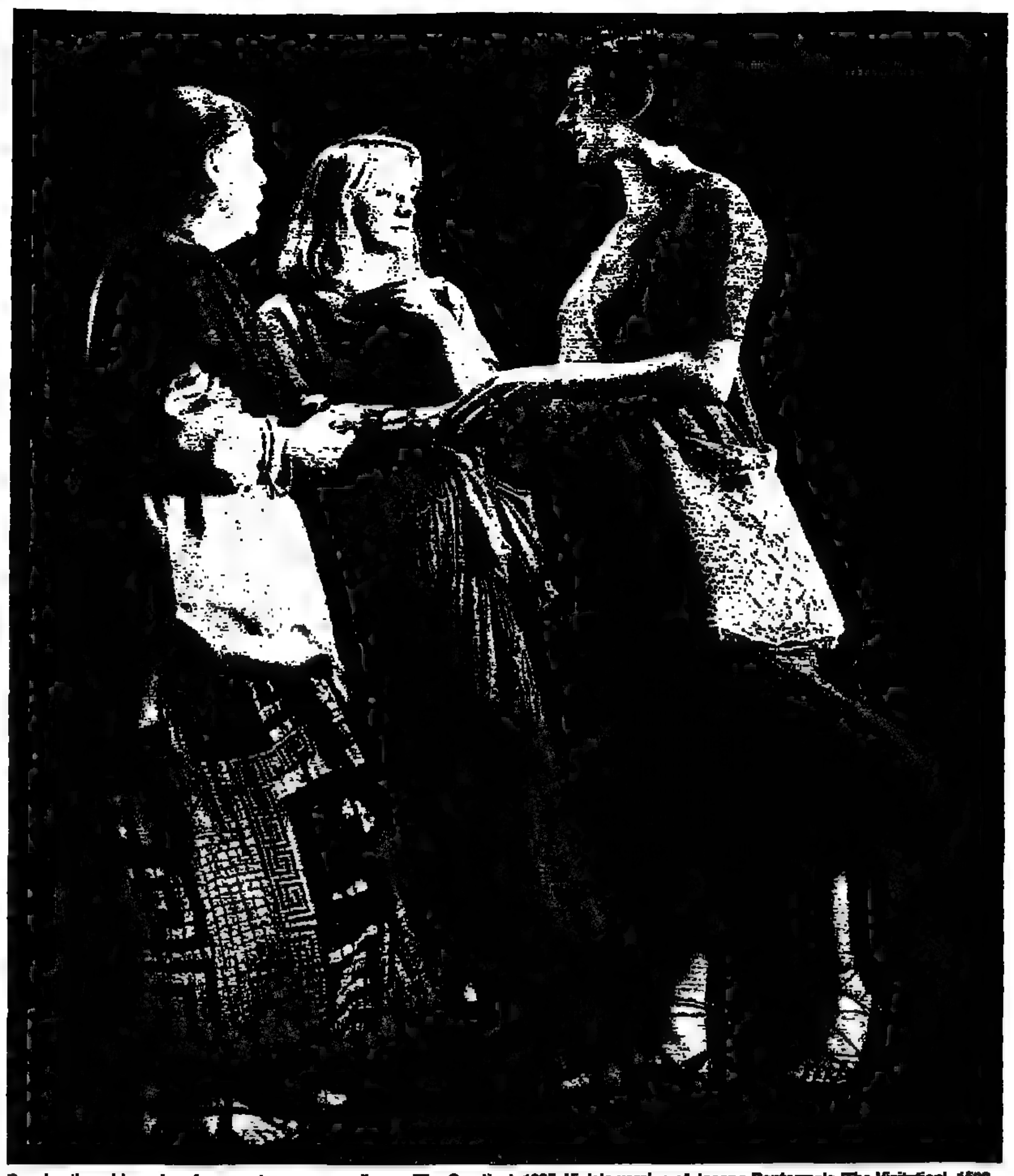
'Boundaries . . . have broken down in a way that hasn't happened since artists were painting on the walls of churches'

The figures seem familiar because they are – for the work is not some glorious relic from Renaissance times, but a video, of real people, ordinary, contemporary people, actually engaged in those primal processes of birth and death which have been the core subjects of religious and other great paintings and works of art for the past 500 years. "The Nantes Triptych", 1992, now on view in Frankfurt, was made by the American artist Bill Viola, the subject of a large-scale exhibition now on the final stop of its European tour before returning to the US, where it premiered in Los Angeles, the artist's home town, some 16 months ago.

It is a measure of Viola's achievement that not only this but several of the works in the exhibition can claim to be considered as contemporary successors to the humanist tradition of Renaissance art. "The Greeting", 1995, shown in the Town Hall, is a literal recreation of the painting "The Visitation," made by Jacopo Pontormo in 1528. The "action" the painting depicts, two women greeting each other while a third looks on, is acted out by performers in the video. The women move towards and embrace each other, their actions slowed down so that each movement seems full of portent, the lighting giving the colours of their clothes an extraordinary jewel-like glow: the action, colour and ambient sound combines to recreate the intensity of the original work for a modern audience.

In the quarter of a century that Viola has been working with video, it has changed in his hands from a technophile's delight to a means of creating some of the very few works of contemporary art which truly deserve to be described as monumental. This 25-year survey of his work was jointly curated by the artist and his two long-term associates, theatre director Peter Sellars and David Ross, director of the San Francisco Museum of Modern Art. The concept of the exhibition was hugely ambitious. Sellars insisted that, instead of showing each piece separately with title and explanatory notes, Viola's works be presented with no attendant information but as a total experience. Sellars' approach allows the physical impact of the work to be experienced to the full. The viewer must be prepared to venture into darkness, to be deafened by unexpected blasts of sound, dazzled by sudden washes of light.

Viola is fascinated by the interface between the conscious and the unconscious mind, the point at which the everyday babble inside our heads is swept aside by the deeper, darker imaginings we struggle so hard to control. In pieces such as "The Sleep of Reason", 1988, he shows this very simply. The installation seems like a quiet, ordinary room, furnished with a sideboard with a vase of flowers, a lamp and a clock. Also on the sideboard, a small black and white television shows a man's sleeping face. Suddenly, everything goes black and the walls are filled with huge, menacing images – a dog snarling and barking, sheets of flame, an animated X-ray like a dancing skeleton, a great white owl swooping out of the darkness, the silence shattered by roaring, ambient sound. While its effect may be frightening, there is nothing difficult about the piece – its concept is articulated very clearly, its technology used directly to serve this purpose.



Reanimating old masters for a contemporary audience: 'The Greeting', 1995, Viola's version of Jacopo Pontormo's 'The Visitation', 1528

Viola's attitude to his technical skills is refreshingly direct. In Frankfurt he recounted a conversation with a student who had described video as "my father's medium". Viola realised that for this young man, video was not a new but an old art form, like Impressionist painting. The language that he had pioneered had become the everyday, something Viola welcomes. "Now it's something that everyone uses, that everyone understands. My work has been on television and millions have seen it – the boundaries around art have broken down in a way that hasn't happened for 500 years, since artists were painting on the walls of churches."

In Frankfurt, the exhibition makes this analogy real. In the religious building and the municipal hall, Viola's works make no bones about claiming for works rendered in the electronic medium of video the status of iconic, universal objects accorded to the painted images of the past. Reusing the classical forms of Renaissance painting as the basis for works in video reanimates the older works for a contemporary audience, allowing their deeper meanings to be rediscovered through a direct and familiar medium.

The third off-site installation, however, which has no such historical allusions, makes perhaps the most powerful impact of all. In the busy entrance hall of the Stock Exchange stands "Threshold", 1992. A simple white box, about 12 feet high, displays on its outer walls the dazzling flicker of a Reuters newswire. But once through the small, dark doorway which leads inside the box, the visitor is plunged into another world. Blurry, black and white images of three sleepers fill the walls, the only sound their breathing, the only activity their involuntary movements. There, where Frankfurt's economic heart beats at its strongest, Viola has reinserted that place of darkness, of unreason, which lies beneath the bright, rational structure of our waking lives.

Bill Viola – 25-year survey exhibition: to April 25, Museum fur Moderne Kunst (MMK) and April 18, Schirn Kunsthalle, Frankfurt am Main and also at the Dominican Cloister, the City Hall and the German Stock Exchange. Information from MMK tel (069) 212 38 819, fax (069) 212 37 882. Exhibition sponsored by VEBA.

OPERA IN WASHINGTON

Action in need of fine tuning

The Washington Opera's season is nearly over, and it has done laudable work in several recent productions, from an appealing *Tristan und Isolde* to an American rarity, Robert Ward's *The Crucible*. There is still confusion, however, when defining the company's creative vision. Artistic director Plácido Domingo hasn't struck enough deals to boost the general quality of singing significantly; the glamorous chums he does persuade to sing – this season it was the likes of Mirella Freni, Simon Estes, José Carreras – make their Washington debut long past their vocal prime. José Cura, as Samson, was the enjoyable exception.

Then in November Domingo dropped the news – that in his free time he'd assume a second artistic directorship, adding Los Angeles to his responsibilities. Wonderful, announced the Primo Tenor's bosses, perhaps masking their incredulity: maybe we can share resources with the LA Opera. We'll see. At least the company has secured a place at the Kennedy Center: it was threatening to leave and build its own theater across town, in a vacant department store. That building has since been unloaded at a $10m profit.

This financial boon came just before Lotfi Mansouri's production of *Tristan* opened. Shared with the San Francisco Opera, it's of the minimal, less-is-more approach. Act One featured a huge, symmetrical, draped white sail hanging over a semi-circular ship's transom; Act Two had a mossy staircase in a forest clearing, and Act Three combined the semi-circle, now a rampart, with the trees.

The Tristan was a sturdy, light-toned, vulnerable character sung by Jyrki Niskansen. Frode Olsen, as King Marke, and Jurgen Freier, as Kurneval, sang convincingly and acted as second nature. Best in the cast was the bright, ringing low soprano of Rosemarie Lang as Brangane. The orchestra remains the company' strength – so long as music director Heinz Fricke is in the pit. This *Tristan* was his: sumptuous and blooming, a combination of ripeness and lucidity. Fricke is not a flashy interpreter, but he is a supportive and often inspiring musician.

Missing was a centre. The Isolde, Carol Yahr, had stamina, poise, and the tonal heft to cut through the orchestra. But she couldn't float a tone, and thus couldn't nudge a sympathetic response from the listener. Under stress she was hampered by an unattractive timbre. The Act Two love scene was particularly grating; Wagner's direction, to sing his music like Bellini's, was beyond all possibility.

A big show that didn't catch fire was *Boris Godunov* in the widely-travelled production by the late Andrei Tarkovsky, directed in Washington by Stephen Lawless. Isaac Karabtchevsky conducted the 1872 version of Mussorgsky's score, memorable chiefly for plodding tempos. What's more, a *Boris* with a coarse, ill-defined chorus, portraying the Russian people, has no soul. This chorus needs an overhaul. Victoria Livengood sang Marina as a frumpy, middle-aged nanny, shrill and barking, and with no allure. Samuel Ramey has never been a compelling actor, yet as Boris he was stronger, more three-dimensional here than at the Met last season. But why was this 15th-century Russia made to seem so German Gothic?

Back in January, Washington was enmeshed in its own crucible. Deep in a presidential impeachment trial, the city barely registered Robert Ward's *The Crucible*, a tale of witch hunts, greed, and collective paranoia. Nineteen men and women (and two dogs) were ultimately hanged in Salem Village, Massachusetts in 1692. Arthur Miller's play treated the wicked religious politics of Puritan New England as allegorical to the McCarthy anti-Communist hearings of the early 1950s. Bernard Stambler adapted the play for the lyric stage from a commission by the New York City Opera, where it premiered in 1961. Critical success and a Pulitzer Prize quickly followed. It has since been a staple of college opera departments and a few companies intent on building a native repertoire.

Plácido Domingo hasn't struck enough deals to boost the general quality of singing

Ward's music combines Presbyterian hymn styles with an old Broadway declamatory convention of one syllable to a note. Long, drawn-out lines were almost entirely absent, and were missed. The words were entirely audible, as Ward intended them to be, yet surtitles were used anyhow. The tunes are appealing, although it remains more a play set to music than a music lover's idea of opera.

One might assume this to be among the finer productions of *The Crucible*, with Kimm Julian as John Proctor, hanged for reasons far removed from his original "crime". Kristine Jepson played his wife movingly, and Susan Tilbury, as the treacherous Abigail, seemed believably sociopathic. Daniel Beckwith drew fine playing from the orchestra. Australian film director Bruce Beresford infused each character with shape and focus. Despite Domingo's insistence that "producer's opera" is anathema in his Washington house, more sharp-minded stage action of this quality is sorely needed.

Pierre Ruhe

Too many Wildes spoil the wit

THEATRE

ALASTAIR MACAULAY

Gross Indecency
Gielgud Theatre, London W1

Poor Oscar Wilde, during the 1990s, has become, of all things, a bore. What a fate! Surely he would have resented it as greatly he did the hypocrisy, the imprisonment, and the ostracism that were meted out to him in his lifetime. Someone so complex, so provocative, should have remained fascinating for centuries. His plays, of course, do not bore, as long as they are well performed. No, it is Wilde himself, as represented by others, who provokes tedium today.

The latest treatment of Wilde to reach London's West End, *Gross Indecency*, comes to us from New York. Perhaps it is tough on it that, during the two years it has taken it to reach London, the West End has also seen Micheal MacLiammoir's Wilde as re-played by Simon Callow, and Stephen Fry's Wilde (in the movie), and Tom Stoppard's Wilde (as a character in *The Invention of Love*) and David Hare's and Liam Neeson's Wilde (the protagonist of *The Judas Kiss* last year). Oscar is more yawn-inducing to Londoners than he was two years ago. However, I saw *Gross Indecency* when it was new, off-Broadway, in 1997, and liked it no better than I do now.

Gross Indecency is not a play. Written and directed by Moisés Kaufman, it is a post-modern exercise in irony. Its subtitle is *The Three Trials of Oscar Wilde*, and Kaufman presents those trials – with clunkingly obvious "cleverness" – through the filter of memoirs, history, academe and criticism. At no point do Wilde or his contemporaries emerge with any freshness; at no point has Kaufman attempted seriously to re-imagine them.

Kaufman's play tries to earn theatrical Brownie points by using dramatic methods ancient and modern. Its oldest device is its use of a chorus – whose members cite Kaufman's sources as things go along. "From *The Autobiography of Lord Alfred Douglas*, written 30 years later!" one of them proclaims, whereupon Lord Alfred Douglas spouts on cue. "From *The Soul of Man Under Socialism!*" calls another, and promptly Wilde obliges us with one of his famous witticisms from that source. These chorus members also occasionally play musical instruments, and read to us contemporary newspaper reactions to Wilde's work and trials.

When Kaufman tries to be "cleverest" and most ironic – introducing his second act with a media "interview" between "the playwright" and a professorial New York expert on Wilde – he is, dramatically speaking, at his silliest. The professor (the excellent Christopher Staines is wasted in this and other roles) hums and haws his way through a mass of historicism about Wilde; as a token of Wilde scholarship, wholly alien in style to Wilde's own stylishness, he could scarcely be cruder. Poor Wilde can hardly keep his head above these polluting waters. And, when he does, he sounds – like almost all the Wildes served up to us during the 1990s – not like Wilde but a facsimile.

Michael Pennington is an infinitely more sophisticated actor than Michael Emerson, the off-Broadway original, but proves no better. As so often with this actor, his very skill becomes a barrier between him and the audience. In Act Two, when he softens his voice to show us the tender Wildean heart, his eyes and jawline remain hard, defensive, calculating. The rest of the cast are considerably better than the fairly terrible off-Broadway company. But so what? Early into the play, we have already been Oscared out.

INTERNATIONAL

Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Die Zauberflöte: by Mozart. Conducted by Hartmut Haenchen in a revival of Pierre Audi's staging co-directed by Saskia Boddeke; Mar 25, 28

BERLIN

DANCE
Deutsche Oper
Tel: 49-30-34384-01
Cinderella: staging by Roberto de Oliveira. Kevin McCutcheon conducts Prokofiev's score; Mar 26

OPERA
Deutsche Oper
Tel: 49-30-34384-01
● Aida: by Verdi. Conducted by Lawrence Foster in a staging by Götz Friedrich; Mar 27
● Der Fliegende Holländer: by Wagner. Conducted by Rudolf Piehlmayer in a staging by Götz Friedrich; Mar 25
● Eugene Onegin: by Tchaikovsky. Conducted by Jiří Kout in a staging by Go<umalut>tz Friedrich; Mar 28
Staatsoper unter den Linden
Tel: 49-30-2035 4555
www.staatsoper-berlin.org
Tannhäuser: by Wagner. Conducted by Daniel Barenboim in a staging by Harry Kupfer; Mar 28

CHICAGO

CONCERT
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
Chicago Symphony Orchestra and Chorus: conducted by Pierre Boulez in a concert performance of Schoenberg's Moses and Aron; Mar 24, 26

DRESDEN

OPERA
Semper Oper
Tel: 49-351-48420
Ariadne auf Naxos: by R. Strauss. Conducted by Colin Davis in a new staging by Marco Arturo Marelli. Cast includes Susan Anthony and Jon Villars; Mar 25, 27

EDINBURGH

EXHIBITION
Royal Museum
Tel: 44-131-225 7534
www.nms.ac.uk
Chinese Lacquer: 48 objects selected from the museum's lacquerware collection, the oldest of which is more than 2,000 years old. Highlights include an eared cup from the Han dynasty and two 18th century Qing thrones; to Mar 28

LONDON

CONCERTS
Royal Festival Hall
Tel: 44-171-960 4242
● City of Birmingham Symphony Orchestra: conducted by Simon Rattle in works by Kurtág, Gubaydulina and Birtwistle, with violin soloist Vadim Repin; Mar 26
● London Philharmonic Orchestra: conducted by Kurt Masur in works by Strauss and Bruckner, with soprano Felicity Lott; Mar 27
● Philharmonia Orchestra: conducted by David Zinman in works by Mendelssohn, Mozart and Tchaikovsky, with piano soloist Emanuel Ax; Mar 28

EXHIBITIONS
Barbican Art Gallery
Tel: 44-171-638 8891
● Africa by Africa: A Photographic View. Spanning the breadth of photography produced in Africa since the 1920s. Includes works by Mama Casset, Seydou Keïta and Samuel Fosso; to Mar 28
● Picasso and Photography: The Dark Mirror. Exhibition exploring the influence of photography upon both figurative and Cubist strands of Picasso's art. His own photographic works feature amongst the many items on display; to Mar 28

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
Mefistofele: by Boito. Conducted by Oliver von Dohnányi in a new staging by Ian Judge; Mar 24, 26

LOS ANGELES

EXHIBITION
Los Angeles County Museum of Art
Tel: 1-213-857 6000
www.lacma.org
Ancient West Mexico, Art of the Unknown Region: comprehensive overview of West Mexican art between 200 BC and 800. to Mar 29

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● Bavarian Radio Symphony Orchestra: conducted by Lorin Maazel in works by R. Strauss; Mar 25, 26
● Munich Philharmonic Orchestra: conducted by James Levine in works by Berg and Mahler, with violin soloist Christian Tetzlaff; Mar 27, 29

NEW YORK

CONCERTS
Avery Fisher Hall, Lincoln Center
Tel: 1-212-875 5030
www.lincolncenter.org
New York Philharmonic: conducted by Charles Dutoit in works by Poulenc, Saint-Saëns and Holst, with cello soloist Han-Na Chang; Mar 25, 26, 27
Carnegie Hall
Tel: 1-212-247 7800
www.carnegiehall.org
National Symphony Orchestra: conducted by Leonard Slatkin in the world premiere of John Corigliano's A Dylan Thomas Trilogy. Mar 26

EXHIBITION
Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
Dosso Dossi, Court Painter in Renaissance Ferrara. to Mar 28

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
The Queen of Spades: by Tchaikovsky. Conducted by Valery Gergiev in a revival of Elijah Moshinsky's staging, designed by Mark Thompson. Mar 26, 29
New York City Opera, New York State Theater
Tel: 1-212-870 5570
www.nycopera.com
Madama Butterfly: by Puccini. Conducted by Guido Johannes Rumstadt in a staging by Mark Lamos first seen in November, with sets by Michael Yeargan and costumes by Constance Hoffman; Mar 26

PARIS

OPERA
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
www.opera-de-paris.fr
The Magic Flute: by Mozart. Conducted by Friedemann Layer in a staging by Robert Wilson; Mar 24, 25

ROTTERDAM

EXHIBITION
Kunsthal
Tel: 31-10-440 0300
Helmut Newton/Alice Springs: Us and Them. to May 9

SAN FRANCISCO

CONCERT
Davies Symphony Hall
Tel: 1-415-864 6000
www.sfsymphony.org
San Francisco Symphony and Chorus: conducted by Roberto Abbado in works by Bloch and Rossini; Mar 24, 25, 27, 28

TOKYO

CONCERTS
Suntory Hall
Tel: 81-3-3584 9999
● New Japan Philharmonic: conducted by Seiji Ozawa in a concert performance of sections of Wagner's Götterdämmerung, with soprano Hildegard Behrens; Mar 28
● Tokyo Metropolitan Symphony Orchestra: conducted by Eliahu Inbal in works by Wagner; Mar 27, 28
● Tokyo Symphony: conducted by Kazuyoshi Akiyama in works by Haydn and Mahler; Mar 26
● Yomiuri Nippon Symphony Orchestra: conducted by Tadaaki Otaka in works by Sibelius; Mar 25

VIENNA

OPERA
Wiener Staatsoper
Tel: 43-1-51444
● *Cavalleria Rusticana:* by Mascagni/Pagliacci by Leoncavallo. Simone Young conducts a staging by Jean-Pierre Ponnelle; Mar 24, 26
● Macbeth: by Verdi. Conducted by Simone Young in a staging by Peter Wood, with a cast led by Leo Nucci and Eliane Coelho; Mar 28

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:** 05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

MARTIN WOLF

Going bananas

Far from helping poor producers, the EU banana regime is discriminatory and makes no economic sense

Those whom the gods wish to destroy they first make mad. It is conceivable that a long-running transatlantic dispute over a comically shaped yellow fruit will do irreparable damage to the World Trade Organisation. The European Union casts the blame on the US decision to go ahead with retaliatory sanctions on EU exports. The US has indeed made a grievous error: it has lost the moral high ground; it has shifted attention from EU malfeasance; and it is doing potentially irreparable damage to the WTO itself.

Yet the EU should not, for a moment, believe it can clothe itself in righteousness as the guardian of the international rule of law. Its behaviour has been quite indefensible. Not only is its banana regime a scandal, but it has engaged in every imaginable ploy to avoid making the needed reforms.

Some innocents may believe the EU's regime is a sensible attempt to preserve the livelihood of a few small and uncompetitive banana producers from the depredations of powerful US-based multinationals. If so, they are seriously misled. There are only three possible explanations for the regime: it is an honest, but foolish, attempt to help the poor; a dishonest, but clever, attempt to help the rich; or a mixture of the two.

Brent Borrell, formerly at the World Bank, has estimated that at least half of the $2bn cost to EU consumers of the regime in 1994 went as quota rent – the difference between the market value of high-price protected bananas and the cost of acquiring them abroad. Meanwhile, a mere $150m went to the 11 favoured developing country producers (see chart).* Thus it cost EU consumers $13.25 to give $1 to these producers. Similarly, Patrick Messerlin, professor of economics at the Institut d'Etudes Politiques de Paris, estimates that the cost to EU consumers in 1995 was Ecu1.9bn, of which Ecu1.3bn was quota rent.

To see how this can happen, some effort has to be made to understand the extraordinarily complex regime that was introduced in July 1993. Previously, some member countries, including Germany, imported cheap bananas from efficient Latin American producers. But others, including France and the UK, operated protectionist regimes in favour of their overseas territories and dependences. Then, with the coming of the single European market, it became necessary to merge these regimes into one. In keeping with much unhappy precedent, this new regime converged firmly on the standard set by the most distorting of its predecessors.

To summarise – and greatly simplify – it has three central elements.

First, banana imports were divided into three quotas: The first quota guaranteed a certain tonnage to bananas grown by EU member states; the second quota did the same for "traditional" bananas grown in ACP states (African, Caribbean and Pacific members of the Lomé convention); and the third quota did the same for "dollar" bananas from Latin America and "non-traditional" ACP bananas. In 1996, of total quotas of 4.26m tonnes, 0.85m went to EU producers, 0.86m went to traditional ACP producers and 2.55m went to all other origins. These broad quotas have been further divided into four non-transferable sub-quotas for the first quota, 12 for the second quota and six for the third quota.

Second, imports within quota were subject to duty of Ecu75 a tonne. But above quota they were exposed to a prohibitive duty of at least 150 per cent. These so-called "tariff-quotas" are, in practice, binding only on imports of dollar and non-traditional ACP bananas.

Third, 30 per cent of the rights to import under the third quota (much the most valuable entitlement) were transferred from the US companies that traditionally handled these products to EU and ACP trading organisations.

It takes no genius to see that this system is open to formidable legal and economic objections.

In the event, the EU was able to buy off the complaints of four Latin American countries (Costa Rica, Colombia, Nicaragua and Venezuela) over the discrimination they were suffering. It did this by giving them sub-quotas under the third quota, on condition they would not lodge a complaint at the WTO before 2002. But this did not prevent the US from persisting, understandably, with complaints about the discrimination against its companies in the licensing regime. Furthermore, the four Latin American exporters not included in the framework agreement (Ecuador, Honduras, Guatemala and Mexico) also complained. In the event, the WTO found, inevitably, against the EU.

Since those first adverse findings, in 1997, the EU has indulged in some window-dressing, but has made no significant changes in the regime. Inevitably, the years of delay since the regime was first agreed – now more than six years – has sapped the patience of the plaintiffs. It is this loss of patience, plus the formidable lobbying of Chiquita in the US and the protectionist mood of the Congress that explain the foolish US action.

If the EU's wholesale violation of non-discrimination is bad, the economics of the regime is still worse. A complex licensing regime of this kind creates a massive incentive for lobbying and corruption, both within the EU and elsewhere; it makes it impossible to know the true economic impact of the regime; it gives those lucky enough to receive import licences effectively the right to levy tariffs amounting to at least $1bn a year; and it grants those who receive these licenses monopoly power, as shown by distribution margins twice those in the US.

Furthermore, the reduction in EU overall demand lowers world prices. According to Mr Borrell, these reductions cost the disfavoured developing countries as much as the higher prices benefit the favoured ones. Thus the net benefit to developing countries as a whole is zero.

To argue that this regime is idiotic is not to state that the favoured economies should be abandoned. On the contrary, it is merely to insist that a policy whose costs to consumers exceed the benefits to favoured producers more than tenfold is indefensible.

So what are the alternatives? The quotas could all be auctioned; the binding quotas could be replaced by lower than prohibitive tariffs; or, better still, both quotas and tariffs could be eliminated. Similarly, the proceeds of any revenue that is raised could be paid to the favoured economies as deficiency payments (production subsidies); they could be offered as general development assistance, rather than being tied to the production of a product in which these economies have no comparative advantage; or other revenue could be used for these purposes.

Anybody who argues that the best way to help a group of developing countries is for the EU to bear a consumer cost of at least $2bn, transfer $1bn to a few trading companies and provide a benefit of under $200m to the favoured countries has some screws missing. Even the EU can do better than this, while still providing generous help to the vulnerable banana-exporting economies.

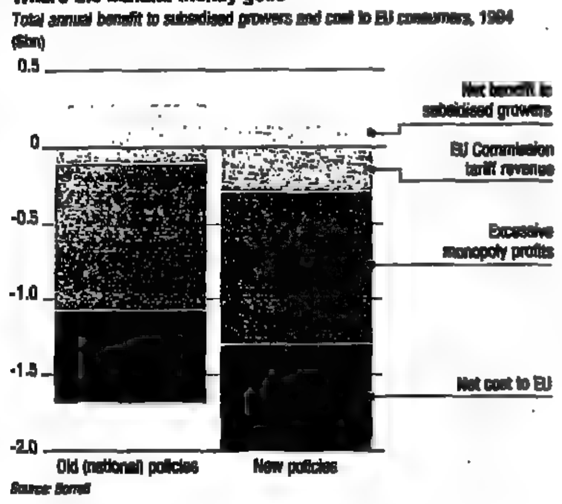
The US has acted intemperately and foolishly. But do the European heads of government really wish to take the WTO down in flames in defence of a regime as foolish as this?

Beyond EU bananarama 1993: the story gets worse, Brent Borrell, Canberra and Sydney: Centre for International Economics, June 1996

Martin.Wolf@ft.com

Where the banana money goes

Total annual benefit to subsidised growers and cost to EU consumers, 1994 ($bn)



Source: Borrell

LETTERS TO THE EDITOR

Making companies good citizens

From Mrs Maria Livanos Cattaui.

Sir, When Kofi Annan, the United Nations secretary-general, called recently for a partnership between the private sector and the UN to give a human face to the global market, he drew attention to a dilemma much debated in boardrooms: what responsibilities should business assume towards the community at large?

Leading member companies of the International Chamber of Commerce have expressed readiness to take up Mr Annan's invitation to contribute to a global compact upholding shared values and principles on human rights, labour standards and environmental practices. All three are values proclaimed in corporate codes, standards and best practices, and in guidelines drawn up by representative organisations such as ours.

Alongside these values, companies place a fourth: to meet their responsibilities to customers, employees and shareholders. Fulfilment of that responsibility is the key to the other three, for without it companies cannot remain in business.

The starting point for Mr Annan's compact must be a clear understanding of roles. Business cannot meet demands and expectations for which governments are primarily responsible – ensuring the rule of law, universal access to education, freedom of speech, fair distribution of wealth and an adequate safety net for the old, the sick and the jobless.

What companies can do is to be good corporate citizens in their relations with the community in which they operate and in their treatment of employees, suppliers, sub-contractors, customers and business associates. They can conduct their business fairly, and resist corruption. The continued spread of high corporate standards in all these areas is a powerful combination for progress towards a world which, in Mr Annan's words "offers everyone at least a chance of prosperity, in a healthy environment".

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Truth about the coalitions destroying German growth

From Mr Wolfgang Mössinger.

Sir, When I read Martin Wolf's comment on growth-destroying coalitions in Germany ("The German disease", March 17), I hoped I would read a balanced analysis of the "German disease". Unfortunately, he stuck to the traditions of those who think the poor are too rich and the rich are too poor.

When he talks about the cartelisation that made it impossible for east German business to benefit from unification by undercutting the prices and wages of west German producers, he blames only labour market rigidities. But the more damaging cartelisation happened with the help of the Treuhandanstalt and the former German government. They allowed west German business to take over their potential competitors, at almost no cost, then destroy them, to retain their monopolies. The best example is electricity production. Can Mr Wolf explain why electricity is more expensive in the new *Länder*, even though wages are only 85 per cent of the wages in the west and the real tax burden of these companies is considerably below the European average?

I agree about the lack of competition in vital sectors of the German economy and about the inability of our welfare state to adjust to globalisation. But it is too easy to put the blame on those who work and pay their taxes honestly while others flee their responsibilities and moan about the excessive taxes they have not paid for years anyway (like Daimler Benz). But this truth would hurt your readers and disturb them in their triumphalism over Oskar Lafontaine's departure.

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Difference a few weeks made to Microsoft

From Mr Douglas Richardson.

Sir, In a recent report on the Microsoft trial Richard Schmalensee, dean of the Sloan school of management at Massachusetts Institute of Technology, is said to have told the court that "they [Microsoft] record operating system sales by hand on sheets of paper. Under these circumstances, I accepted the absence of a detailed cost allocation system absolutely." In Louise Kehoe's interview ("A visionary with Windows on the world", March 17) Bill Gates is quoted as saying: "The sales are in digital form so anytime I want to I can look by country, by product, exactly how sales compare to budget, how they compare to other groups."

Am I missing something?

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PERSONAL VIEW FRANÇOIS HEISBOURG

A merger too far

Europe's biggest defence merger is a bad idea and should be stopped by competition authorities

A broad consensus exists in Europe for a drastic cut in the number of defence firms, for several sound business-related reasons.

As shrinking defence budgets limit the scope for internal development, external growth through mergers and acquisitions becomes mandatory. Beyond this quantitative factor, the nature of the business itself is changing: progress in civilian information technology is at the heart of the "revolution in military affairs".

New defence companies need a broader technological and customer base than traditional firms working solely for governments. Last but not least, European companies have to secure the same advantages as their giant American counterparts in terms of mobilising research and development and providing customers with a complete range of services and products.

There are also political and strategic reasons driving governments to press for radical restructuring, such as the search – expressed most clearly in the Franco-British Saint-Malo declaration – for a greater European defence role, underpinned by the corresponding defence-industrial base.

However, these considerations should be left aside when considering the merits of this or that prospective defence merger or acquisition. If it does not make sense by the rules of the marketplace, then it should not be attempted.

There are three reasons why such a basic reminder is needed. The first, which is mercifully waning, is that old-style *Colbertisme* still exists in practice, even when it has been abandoned as an ideology. Although the state is finally disengaging from firms such as Aérospatiale or Thomson-CSF in France or CASA in Spain, the process is by no means complete.

Another reason is that policymakers run the risk of forgetting that a functioning marketplace cannot exist without rules ensuring a sufficient degree of competition.

A third reason is that the legitimate search by companies for shareholder value is not the sole dimension of capitalism.

Customers, even when they are merely taxpayers, must also be given due consideration. Monopolies may be ideal for generating shareholder value: that does not justify them.

Here again, the point would not need making were not it for the prospective merger of British Aerospace and GEC's Marconi Electronic Systems.

The political fallout caused by BAe's and Marconi's intention to merge is impressive: German anger towards a move that prevented the first major "euromerger" (between BAe and DASA); French puzzlement at the British doing the exact opposite of what they had been preaching by building up a "national champion"; American displeasure at seeing Marconi going to a non-US contender. However weighty these considerations may be, there is one that is weightier: the merger's impact on competition. Are the consequences sufficiently clear for the combination to be scrutinised by the British competition authorities?

The case for a referral to the Monopolies and Mergers Commission (MMC) is strong. BAe and Marconi would have annual defence sales of some £10bn (without taking consolidation effects into account). Much of this defence activity is generated by exports. Still, a new BAe could be the only company in the world whose defence sales represent more than its home country's entire armaments spending.

It is unlikely that this can leave much room for competition. Even in the most liberal states, such as Britain, major defence bids cannot be won by foreign firms unless they have a local partner, which contributes to the preservation of the customer country's defence-industrial base. This fact of life is not going to change.

In qualitative terms, the merger is also questionable, since it would have an important vertical dimension. BAe produces combat aircraft and Marconi manufactures the combat radar and the avionics that equip the planes. Even if these businesses represented only a small fraction of the new group's overall sales, it is a critical area: combat aircraft represent the largest single expense in modern armaments budgets. It is worth recalling that in March 1998, the US regulatory authorities stopped a similar merger between Lockheed-Martin and Northrop Grumman, for competition reasons largely linked to the vertical nature of such a group. Yet even if the Lockheed-Northrop merger had been given the green light, its impact on competition in the US (with players such as Boeing and Raytheon present) would have been less obvious than that of a new hegemonic BAe.

Conversely, one common element between the two projects deserves to be singled out: in neither case did the national customer initially object to the proposed mergers. It was only after the Lockheed-Northrop combination had received approval from Northrop's shareholders that American authorities stepped in. Hopefully, the British authorities will rouse themselves earlier, and engage in a thorough review of the merger.

Nor should such a review allow itself to be sidetracked by the odd contention that in the era of "smart procurement", prime contractor competition is no longer required. Lack of competition is already a serious problem without it being compounded by spurious arguments. The political fallout of the BAe-Marconi merger should not be compounded by an absence of due process. A serious review by the MMC could mitigate some of those consequences, by voiding, or (less probably) by legitimising, the merger in terms of its effects on competition.

The author is chairman of the Geneva Centre for Security Policy

The spending revolution

Labour is making radical changes to the way it allocates spending money among government departments. **Nicholas Timmins** examines whether they will deliver better public services

Two years ago, Alan Milburn, the chief secretary to the UK Treasury, would have been known as the government's abominable "no" man. His task was to control public spending and he would then have been fighting an annual battle with colleagues, with little time to do anything but fulfil the Treasury's traditional role of cutting and constraining public expenditure.

Today the task is different. So different that Labour claims that it amounts to a revolution both in way the Treasury works and in how public services are delivered. There is some evidence to support that bold claim.

In place of the yearly argument about levels of public spending, there is now a three year comprehensive spending review, which on Labour's calculations provides an extra £40bn for public services over the next three years. The money starts flowing on April 1.

Tied in to that are "public service agreements" – in effect contracts between the Treasury and spending departments – to deliver more than 500 performance and efficiency targets in return for the extra money.

These have been translated into individual targets for schools, hospitals, city services, the police, the courts and so on – all backed by an explosion of new inspectorates, by benchmarks of performance, and league tables to reveal how individual services are doing.

Labour's new approach has aroused considerable interest among the recently-elected centre-left governments in Europe – eager to see whether or not it will work.

The role of the Treasury, and in particular that of its chief secretary, is at the heart of this change. "Traditionally, this was an annual firefighting role," Mr Milburn says, "fighting off colleagues who wanted more cash, often for rather ill-defined purposes. Now it is much more strategic, much more managerial." This is the new public management in action.

For a start, argues Mr Milburn, it addresses a lack of planning among civil servants. "It was an old complaint of the left that the problem with the British economy was its focus on short-termism. But the greatest short-termism of all was actually in Whitehall. The health service, for example, didn't know how much money it had 12 months ahead. There was the mad March rush to spend – painting yellow lines on hospital car parks, for example – to use the cash up before the financial year ended. What could be worse value?"

Now if a department underspends, it can expect Treasury approval to carry the cash over. "Greater stability and the ability to spend for the long term," Mr Milburn says – plus a requirement that departments create their own contingency reserve from the three-year allocations that have been given.

But the biggest change, he argues, has been money in return for firm promises, and a shift away from worrying about either the inputs or the outputs of government spending, to focusing on its outcome.

Twenty years ago, he says, "the virility test for governments of both left and right was how much money was spent". The Tories, he concedes, moved the argument on. They started to measure outputs – how many extra doctors, or police or teachers the extra cash actually bought. "Now the focus is on outcomes" – for the service agreements now specify quantified improvements that have to be achieved for the cash: better exam results, smaller waiting lists, shorter waits for court cases, a fall in homelessness, a cut in car crime.

"We are looking at defined improvements in the services that the public actually receives, not just the amount of money put in. That is a very big cultural change, both for civil servants and for front-line service providers. It is an enormous break with the past – but it is what the public wants."

It has meant altering the machinery of government, with much closer co-ordination between the Treasury, the prime minister and the Cabinet Office.

Milburn: there will be 'zero tolerance of failure'

At least twice a year, starting next month, a new Cabinet committee will call in the big spenders – those in charge of health, or education for example – to quiz them on how close they are to their targets.

The price of failure – though Mr Milburn is careful not to say this as the jobs are not in his gift – is likely to be dismissal. But the chief secretary argues that the presumption is against ministerial departures because the system is designed to prevent failure.

Failing schools will be taken over by the private sector or provided with new heads. Hosptial managers who fail to deliver will be replaced. And there is the panoply of inspection and benchmarking and league tables to expose poor performance early – with, Mr Milburn insists, "zero tolerance of failure".

Much of this, he concedes, "has a sense of sanction: a stick rather than a carrot". But it is balanced, he says, by rewards for good performance. City governments which are deemed to be "beacons" will get more powers. Beacon schools and hospitals will get more money. And amid fears that the explosion in inspectorates will create a vast new bureaucracy of inspectors rather than do-ers, government is promising lighter inspection for those who are succeeding.

"We have already made clear that where there are successful schools and colleges, that will mean a lighter inspection regime. In time that will have to come for hospitals. There is a general principle that where services can demonstrate clearly that they are performing well, they should be freer to do so without heavy handed intervention."

In addition, for health staff and teachers the government has proposals for performance-related pay which will reward not only individual, but team and organisational performance. The 5m staff who work for public services have to have incentives to change the way they work.

But many of the changes cut across traditional spending boundaries, such as criminal justice, and providing for the homeless, asylum seekers, the elderly and the mentally ill.

Is there not a conflict between the demand for innovation locally – which must involve taking risks and seeing some innovations fail – and the message that there will be "zero tolerance of failure"?

Not so, Mr Milburn says. "Some have seen the setting of targets as the government trying to control centrally what happens in every school, hospital or court. But there is a crucial distinction that we must get across. It is important for government to define what we expect public services to do. What we can't define is how they do it. There is a sharp difference between the what and the how – they have to have the freedom to innovate."

But still with zero tolerance of failure? "Yes" he says – with a certainty that the government has produced a balance which local managers may still see tilted against them.

Breaking down departmental barriers to create the seamless services the public need has not proved easy, he concedes.

But he remains optimistic both that it can be done and that the next comprehensive spending review, which starts next year, will focus more on pooled budgets and shared resources across departments. Sufficient officials have recognised the need, he says. And one of the few advantages of 18 years in opposition, he quips, has been how well the Labour ministers know each other and share a common view of what needs to be done. "Two years into government, that has survived to remarkable degree."

At the Treasury, he says, this change in public management has been welcomed. Rather than fighting the trench warfare of annual spending battles, its civil servants now have time to work with departments on their bids to the capital modernisation fund, for example, and to examine the progress of projects.

The political stakes, he concedes, are high. The next election might ride on them. Labour has invested "an enormous amount of political and financial capital" in improving public services. If £40bn more is to be spent, that has to mean "£40bn worth of improvements".

"We have, of course, to say that this is a very ambitious programme that will take time to have effect – in the case of the national health service a 10-year programme. But what the public has the right to see is quantifiable year-by-year improvements. They pay for these services. They want them to be better. And come the next election, they will judge us on whether they think they are."

COMMENT & ANALYSIS

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Opec's crude calculations

The Organisation of Petroleum Exporting Countries has already tried twice in the past twelve months to prop up the price of oil, without much success. Its latest agreement, though, has a chance of reversing the current oversupply in the oil market.

The fall in the oil price after the Asian economic crisis was largely positive for the world economy. It was critical in creating the deflationary environment that allowed western central banks to cut interest rates to alleviate the crisis, without worrying unduly about the inflationary consequences.

Yet for producers – particularly in the developing world – the fall in the oil price from nearly $20 per barrel in 1997 to just $10 by the end of 1998 was crippling. The Opec deal could tip the balance back their way.

The deal appears to have an unusual degree of support both within the Opec countries and from non-Opec participants, no doubt because of the severity of the price slump. One "rogue" Opec member, Venezuela, has a new President, Hugo Chavez, who looks more likely to follow the Opec limits than his predecessor. And by promising a production cut of 7 per cent (1.7m barrels per day), the deal is big enough to have an impact on the market, even if compliance is not perfect. Already, the oil price has risen by over three dollars since the beginning of March, partly in anticipation of the deal.

There are other reasons to expect a firmer oil price. Falling investment by oil companies means that there is only a small amount of new oil coming onstream: some uneconomic wells have closed; and although the world economy is still slowing, it is likely to start to pick up by the end of the year.

However, there is a formidable barrier to overcome before the oil price can sustainably recover from its recent lows - a 350-400 million barrel stockpile. For this to be reduced, the Opec deal will have to hold together for some time. Yet, however much co-operation there is now, there will be a strong temptation for cash-strapped producers, particularly Russia, to crank up their output once prices rise. The question is when, not whether, the consensus will break down.

Still, in the short term, Opec has a good chance of correcting the current excess of supply over demand. In the longer term, its influence will wane again, and the oil price will find a new equilibrium level: what this will be, given the huge supply uncertainties, is extremely hard to predict.

It seems likely, though, that as market pressures continue to bear down on extraction costs, the supply of oil will remain abundant. It will then be up to governments to compensate for the environmental impact of low prices by increasing taxes; and up to producers to reduce their reliance on this volatile market.

EU taxation

Turmoil in Brussels may have taken some momentum out of controversial European Union plans for a withholding tax on investment income, but the issue has not gone away. That is a pity, for the scheme is ill-conceived, posing a threat to the financial industries of London and Luxembourg without compensating gains.

A draft Commission directive, supported by 13 of the 15 EU states and the European parliament, would impose a tax on the interest paid to individuals in EU states from other members. Institutions would be exempt.

The aim is laudable – to clamp down on tax evasion by retail investors – but the directive could seriously damage the huge international bond market which London captured from the US in the 1960s – ironically after Washington imposed a tax on overseas investors.

If the tax were applied to existing bonds it could trigger market turmoil, since most issues contain clauses allowing redemption at par if new taxes are imposed. With many bonds trading above par, thanks to declining interest rates, investors would suffer large losses.

Even if limited to new bonds, the directive would encourage issuers to quit London for friendlier markets, such as Zurich and New York. So too would an alternative proposal under which an interest-paying bank would disclose the name of recipients to the tax authorities in their countries. This would be costly and bureaucratic.

The directive's supporters say London's fears are grossly exaggerated, since EU retail investors only account for about 10 per cent of bond issuance. But this ignores the fact that, in a world of electronic trading and fierce competition between financial centres, capital is highly mobile and sensitive to regulatory change. And since London is Europe's main capital-raising centre, its loss would be the EU's.

While it is impossible to judge the precise impact of the directive, it risks wrecking a well functioning market for the sake of a policy which is bound to fail: investors determined to avoid tax will simply find new instruments in more accommodating offshore centres.

Britain and the EU have been discussing a compromise to exempt eurobonds from the tax. But this is a second-best solution, involving tortuous definitions of the bonds covered, while not solving the underlying issue of tax avoidance.

Better to scrap the directive and tackle the problem at source, by reforming bank secrecy laws in countries most concerned about evasion, notably Germany. But that, of course, would require real political courage.

Broken promises

Ten years ago the world's governments made a promise they have failed to keep. Leaders and representatives of 155 countries at international conference in Thailand pledged to provide primary education for all by 2000. They have fallen shamefully short of the target.

Today 125m children – one-third of them in Africa – are not at school. Another 150m children start primary school but drop out before they have completed four years. These figures are shocking enough. But in a report that should galvanise world leaders into action, Oxfam, the international aid agency points out that the reality is even worse.

Many of the schools in developing countries lack the most basic equipment. Classrooms are without desks, and children lack textbooks and blackboards. Yet even this hopelessly inadequate education is out of the reach of millions, because they have to pay school fees.

The implications are devastating. Education has always been the single most important weapon in the fight against poverty. In today's knowledge-driven world, it is still more vital. A radical rethink of policy is required, both from donors and from developing countries.

Oxfam has launched a campaign to achieve universal primary education by 2015. To achieve the aim within a decade would cost $7bn-8bn annually – less than the yearly amount Europeans spend on mineral water.

Donors should begin by increasing the amount of aid for basic education from 2 per cent to 8 per cent. This would raise $4bn a year – amounting to $4 per capita in the world's richest countries.

At the Earth summit in 1992, donors committed themselves to make progress towards the UN target of allocating 0.7 per cent of their gross national product to aid. Once again, they failed to keep their promise. Aid flows have fallen by one-fifth since then, to barely 0.2 per cent. Had they been maintained at 1992 levels, overall transfers in 1997 would have been $24bn higher.

Second, they can and must do more on debt relief. Meeting the education target in sub-Saharan Africa, where the crisis is at its worst, would cost an estimated $3.6bn annually over 10 years – less than a third of the region's debt service costs.

African governments must also take responsibility. They must make primary education their top priority. To spend $7bn a year on arms when schools are collapsing, is obscene. Both sides should recognise that the most effective use of aid money is on primary education. World leaders should renew their pledge, and this time they should keep it.

Fit for enlargement

As EU members gather in Berlin for a special two day summit, Peter Norman looks at their chances of reforming the Union to make it ready for the next century

Austria and Germany normally see eye to eye. But on Sunday night, Wolfgang Schüssel, the Austrian foreign minister, and Hans-Friedrich von Ploetz, state secretary in the German foreign ministry, appeared to be reporting on completely different meetings.

Looking back on three hours of discussion among European Union foreign ministers, Mr Schüssel detected "not a millimeter" of progress towards completing the so-called "Agenda 2000" negotiations on reforming the EU's farm, regional and budget policies for early next century.

Mr von Ploetz, at the end of the same conclave, saw signs of "flexibility" that held out hope of success. "Prospects for an overall compromise" on providing the EU with the financial security to expand eastwards in the coming decade had "clearly improved" he said.

For followers of the EU's protracted budget negotiations, the divergent accounts presented a familiar puzzle: was the cup of EU reform half full or half empty?

Gerhard Schröder, Germany's chancellor and the summit's host, will be asking the same question as he prepares for his first great foreign policy test today. A special two-day summit in Berlin is due to complete the Agenda 2000 reforms that will cover the EU's financial arrangements for the seven years from 2000 to 2006.

Despite intensive negotiations among the 15 EU member states since Germany took over the EU's rotating presidency on January 1, the summit is set to be a cliff hanger that could easily run into the early hours of Friday morning.

Even before the escalation of the Kosovo crisis, the Berlin summit was always going to be important. Settling Agenda 2000 would prepare the Union's finances for the huge challenge of absorbing former communist countries in eastern and central Europe.

But the stakes have risen even higher in the past nine days. The 15 EU leaders are meeting just over a week after the spectacular mass resignation of the EU commission. Although the Agenda 2000 negotiations are a quite separate issue, failure to reach an accord could be devastating for public opinion and the EU's image abroad; it could also cast doubt over the member states' ability to choose a new Commission president and restore order in Brussels.

While some leaders, including Tony Blair, the UK prime minister, appear to hope the summit will agree a new Commission president to succeed Jacques Santer, Mr Schröder, as its host, is determined to focus the talks on Agenda 2000. He has made clear that an agreement on the Agenda will require sacrifices from all member states so that no-one can go home claiming complete success.

A man from Mars might be tempted to ask what all the fuss is about. After all, the EU's overall spending is less than 1.2 per cent of its gross domestic product.

But, as a conglomeration of independent countries, the EU has always made heavy weather of agreeing the multi-year packages that determine its future financing. The period from 1986 to 1992 was peppered with deadlocked summits and emergency meetings as the member states struggled to bring expenditure and funding into line.

Now, it seems that only radical financial reform can avert more such crises – hence the importance of the Berlin summit.

The traditional solution of budget problems, last demonstrated at the Edinburgh Summit of December 1992, was for Germany, then headed by Helmut Kohl, to pull out its cheque book.

That option, Mr Schröder says, is not available now. Since unification, Germany has lost its position as one of the richest member states. It has high unemployment combined with a faltering economy and, in Mr Schröder, a chancellor with neither the wish nor the budgetary wherewithal to follow Mr Kohl's example. Mr Schöder's goal is to cut rather than raise the €11bn (£7.38bn) net contribution Bonn pays to the EU each year.

The state of the eastern European countries provides a further compelling argument for rigorous reform. If the applicants have one thing in common, it is that they are all poorer than existing EU members.

In preparing for enlargement, the EU must not only set aside funds to help the applicants before accession, but revise its existing budget to ensure that the new members do not bankrupt the Union once they have joined the club.

That means, first and foremost, reforming the Common Agricultural Policy, which accounts for just under half the €85bn spent by the EU each year. It also means changing the structural funds that channel about a third of the EU budget to the poorer regions and the ramshackle structure of "own resources" by which the EU budget is financed.

In theory, negotiations on agriculture should be easy. EU leaders broadly agreed at the end of February that farm spending should be stabilised at around €40.5bn a year in 1999 prices for the seven years starting in 2000. Two marathon negotiating sessions by farm ministers then resulted in a package centred on cuts in the support prices for milk, cereals and beef, which should limit spending to €289.8bn in the seven years - some €6.3bn more than the target.

By any standards the gap is small. But France is demanding changes. The Berlin summit will have to agree on ways of bringing farm spending more into line with the target, without alienating Paris and without reopening the whole agreement.

The negotiations on regional spending have been technically less tortuous, but more emotionally charged, threatening to divide the EU into Northern donors and Southern beneficiaries. The leaders will meet with national positions still wide apart.

The German presidency, which has wanted to limit overall spending in the seven years at around €200bn, is seeking to keep negotiations in a range of between €190.5bn and €216bn.

Signs of a deal emerged yesterday when Spain, which has benefits most from the structural funds, moved toward the German position and said that spending of between €210bn and €220bn would be acceptable.

The Berlin summit: the main objectives

- Agree agricultural reform that limits average annual spending to €40.5bn between 2000 and 2006
- Concentrate structural funds on areas of greatest need at a total cost of €190.5bn to €216bn in seven years
- Provide and "ring fence" funds for applicant countries before and after enlargement. Pre-accession payments likely to be €3.12bn a year while accession payments could rise to €13.87bn in 2006
- Improve system of EU's own resources. GNP could replace VAT as the basis for calculating some EU revenues
- Redress budgetary imbalances such as Germany's €11bn net contribution. The UK's partners want changes to the British rebate

This followed a particularly impassioned debate about the future of the so-called "cohesion funds", worth around €3bn a year and paid to Spain, Portugal, Ireland and Greece, to help pave their way to membership of Economic and Monetary Union.

Germany has agreed that euro membership should not disqualify countries from continuing to have cohesion fund money so long as their national income is less than 90 per cent of the EU average. This could facilitate agreement on broader issues.

Finding agreement on the structural funds will still involve difficult details. But the most vexing issue will be arranging a more equitable financing of the budget.

The commission, in its first Agenda 2000 proposals, skated over the problem of net contributions to the EU. But it was brought into the negotiations by Germany, by far the biggest payer in the EU, and has turned the spotlight onto Britain – which won a special rebate of its EU budget contributions in 1984 after years of fierce negotiating by Margaret Thatcher, the prime minister then.

The problem of who pays what has added greatly to the difficulties of the German EU presidency in handling the negotiations.

It has divided Britain and Germany, which otherwise are natural allies in pushing for tough spending limits. It has been one factor undermining the Franco-German relationship in the course of the negotiations.

The rebate poses a special dilemma for Mr Blair. While other leaders will measure Mr Blair's professed Europeanism by his willingness to compromise on the budget rebate, the UK prime minister will be conscious of a largely euro-sceptical press at home ready to pounce on any sign of weakness.

The German presidency suggested last weekend that the UK budget "abatement" should be maintained but also proposed a host of complicated modifications that could whittle away its benefit to Britain.

Any final deal will be rather like an elaborate jig-saw, with a host of interlocking pieces. Seemingly abstruse changes can have profound effects on EU finances.

One such is the proposed switch from value added tax to gross national product as a basis for some payments by member states to the EU. It would, for instance, increase Italy's present low net contribution.

Mr Schröder will chair the meeting with some cards in his favour. Electorally and politically, he is less beholden to Germany's farm lobby than was Mr Kohl. Nor, as a Social Democrat, does he have to placate Edmund Stoiber, the powerful right wing euro-sceptical prime minister of Bavaria.

Germany's EU partners should have a financial interest in working for a settlement in Berlin. With remarks such as "we are not looking for a lottery jackpot", Mr Schröder has been preparing domestic public opinion to accept a relatively modest reduction in Bonn's net contribution.

Should the negotiations in Berlin fail, Germany – without the obligations of the EU presidency – could be more aggressive in seeking a reduction in its net contribution.

Spain and others might find it more difficult to retain present levels of EU support as they grow more prosperous.

But success in Berlin will ultimately depend on whether the right chemistry emerges among 15 leaders, each with a profoundly different national agenda.

This group will have to do more than horse trade to reach a compromise in Berlin. They will have to reach a consensus on what sort of European Union they want in the 21st century.

Judged in that light, Kosovo will provide as much of a test as reforming the EU to make it fit for enlargement.

OBSERVER

Buoyant Brussels brightens up

Brussels may be bruised by the spectacular fall from grace of Eurocrats galore, but yesterday it had cause to cheer.

The capital of Europe is about to open its arms to the world's largest power generation company – and that's comforting news when most moves in recent years have been the other way.

ABB and Alstom's decision to base their mega joint venture in the city comes after a litany of woes.

A couple of years ago Renault closed its assembly plant north of the city. Airlines Virgin Express and Sabena have both mused over moving elsewhere.

And a long list of foreign takeovers in the last 18 months has shunted the nerve centres of five of Belgium's biggest companies outside the country.

So well might the champagne corks pop. ABB Alstom Power, with 54,000 employees and revenues of $11bn, is quite a catch – and it chose Brussels ahead of London, Paris and Zurich for its convenience and transport links.

ABB Alstom did caution that "management may later decide on another permanent location". But Observer suspects that once they've tasted the *moules*, the *frites*, the beer and the chocolates, they might just decide to stay.

Microdiplomacy

It was only a matter of time. After long years as one of the few countries to stick up for Israel whenever the United Nations condemned it, plucky little Micronesia has sent the bill to Jerusalem.

And what is the little island federation of 100,000 inhabitants seeking in return for such unflinching loyalty? Access to Israel's high-tech prowess? Intelligence training? Defence security? Alas, nothing so modest. The pacific Island of Micronesia wants a football coach and equipment.

And it wants the coach to speak fluent English. Moody Zandberg, Israel's deputy education and sports minister, has passed the request onto the country's football federation. Anyone fancy a trip to the south seas?

Imagine

Joseph Estrada, the Philipines' matinée idol-turned-president, has had enough.

Fed up of accusations of cronyism, the one-time "total action star" has banned all his relatives from doing business with the government.

Such a step might be relatively simple for most heads of state. But as Estrada has lived a rich and varied life in which he's acknowledged at least 10 illegitimate children, things are a little different. Indeed, quite where his relatives stop and other Filipinos begin is a matter of some debate.

So the order which bans Estrada's confrères from popping fingers into the presidential pie resorts to the novel euphemism "real or imagined relatives" when it lays out the law.

And for those who wonder how rules can regulate the real relatives – let alone imaginary ones – the government has reassuring words.

It proudly points out the similarity between the order and one issued by the late President Ferdinand Marcos. Sadly, Marcos' heroic efforts to further government transparency were obscured by his swollen bank accounts and his wife's ever-increasing stock of shoes.

Boys' toys

Moscow 1974. The world is reeling from the aftermath of Watergate and US-Soviet relations are edgy. In the heart of the Kremlin, Henry Kissinger, America's tough-guy diplomat, confronts Soviet boss Leonid Brezhnev.

Brezhnev wants the two countries to ally to prevent any third nation from launching nuclear attacks. And, as Kissinger explains in his recently completed memoirs, the communist tsar tries to underline his point with a practical demonstration.

"Brezhnev interrupted his confidential and solemn presentation with periodic and very futile attempts at making a toy artillery piece fire off a small explosive charge," he says.

After aiming the gun at various diplomats, the Soviet boss finally manages to get it to go off, "interrupting the meeting to strut about the room like a prizefighter who had just scored a knockout".

Meanwhile, Richard Nixon, Brezhnev's old partner in crime, had a peculiar magic all his own, Kissinger reveals.

On a Saturday night in 1969, the then president was in San Clemente, California with a couple of friends – and, "obviously trying to impress his pals", told Kissinger to bomb Damascus airport. The next day the president gave no indication of remembering his order. Yikes.

Yum yum

You've got the flag, the chocolate euros and the T-shirt. Now buy the *Celebration of Emu* cookbook.

The Mississippi Emu Association has sponsored the recipe book, stuffed full of delights like Emu avocado dip (use ½lb ground emu), Moo Shu Emu (warning: contains packaged coleslaw mix) and Slow and Easy Emu. If only Europe was so enthusiastic about poor old Emu.

The Financial Times 100 years ago

The Growth Of Germany

The development of Germany has been the result of successful war. Not only did the defeat of France remove the fear of aggression which crippled the energies of the Fatherland, but it welded the detached segments of the nation into a homogeneous whole, and thus paved the way for industrial progress. It was fortunate for the country that when this great opportunity arose, there was a statesman of extraordinary genius on hand to take advantage of it. It was Bismarck who founded the country's present banking system.

50 years ago

Canadian Election Year

Montreal, March 23. A straight political Budget, featured by substantial income-tax reductions, was introduced by Mr. Abbott in the Commons last night and indicated beyond much doubt that this will be an election year. As the Montreal Gazette commented this morning, tax relief so substantial "betrays all too clearly the Minister's desire to please as many people as possible."

FINANCIAL TIMES
WEDNESDAY MARCH 24 1999

THE LEX COLUMN

Power couple

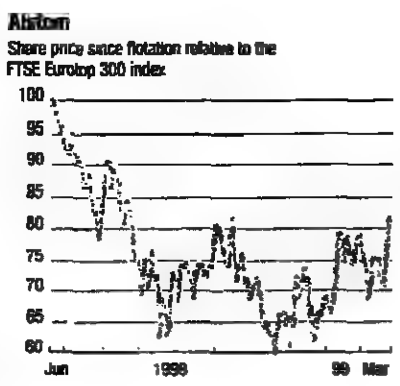
After a sorry debut on the Paris stock exchange, Alstom has struck a deal that should help pull it up by the bootstraps.

Ideally it would have taken part in consolidation of the power generation industry before its flotation, but Siemens outbid it for Westinghouse. Combining with ABB's much bigger power generation business certainly stacks up as a rationalisation exercise. The mooted $450m savings would double the joint venture's operating profits, though the industry's price-cutting history suggests a chunk will be lost to customers. But with the top six companies now down to four, it should be easier to stop the rot.

Alstom also appears to have got a good price – about 1¼ times sales – from General Electric for its heavy duty gas turbine arm. This business, however, makes a return on sales of nearly 10 per cent and will stretch GE's lead in the most buoyant market segment. ABB/Alstom starts with a return of little more than 4 per cent, which explains a valuation of less than 60 per cent of its $11bn sales. Even this, though, leaves the rest of Alstom, including transport and power transmission, looking undervalued.

As for ABB, restructuring is its middle name. But the deal leaves it entwined in a low margin, heavy industrial business. Its much higher rating is dependent on reignition of its flat top line. It recently spent $2.1bn on an automation business. Further acquisitions will surely follow.

Alstom
Share price since flotation relative to the FTSE Eurotop 300 index



Source: Datastream/ICV

US technology stocks

US computer manufacturers have received a drubbing of late. Compaq is more than 40 per cent off its January high. Dell has lost a third of its value, while Hewlett-Packard and IBM are both down by nearly 20 per cent. And this at a time when Wall Street is close to record territory.

The culprit is familiar: worries over slowing growth. After a strong finish to 1998, the new year is off to its usual sluggish start. In fact, underlying demand is healthy, with forecast personal computer volume growth of 15 per cent in 1999. And despite eye-catching advertisements for $300 computers, average selling prices are stabilising after two years of sharp declines. Since most big US PC makers are taking market share from smaller rivals, they should still produce double digit earnings growth this year.

This should not disguise, of course, that assembling PCs is an increasingly mature, commodity business. The challenge for the companies is to move into value-added services. Not surprisingly, most think the future is on-line. Dell is fleshing out its already substantial web site by selling computer peripherals. Gateway has just bought an internet service provider and Compaq is beefing up its Alta Vista search engine. Even Hewlett-Packard is waking up to the net's potential. But the direct sellers like Dell and Gateway, with their close customer contacts, have a head start.

Mexican banks

A swirl of merger speculation has engulfed Mexico's two largest banks, Banamex and Bancomer. But while consolidation would do the country's still-fragile banking system a power of good, this particular combination smacks of creating the Titanic to rescue a drowning man.

The deal would create a bank controlling over 50 per cent of Mexico's loans, deposits and credit cards – surely against the public interest. At the same time, the enlarged group would remain undercapitalised by international standards.

Banamex and Bancomer are already exploiting some synergies through joint ventures in cheque processing and credit cards. But given their fierce rivalry – analysts describe them as the Montagues and Capulets of Mexican finance – a full merger would also bring cultural problems.

There is an alternative approach. A new law in December lifted restrictions on full foreign ownership of Mexican banks and some US institutions have already made overtures. Banamex may even be sprucing itself up for a sale: this week it merged its voting and non-voting shares, giving all holders equal rights. Selling out to foreigners may strike politicians as unpalatable. But it would enable Mexico's banks to clean up their balance sheets after the mess caused by the 1994 peso crisis.

As Argentina has found, the benefits of a more stable financial system are well worth the loss of a little patriotic pride.

P&O

Roll on P&O's latest restructuring initiative – its third since 1996. The shipping group has experienced a stunning change of heart. It is finally bowing to long-standing calls from investors to focus on its growing cruise ship business.

The decision – which involves selling P&O's property and construction assets – was sorely needed.

Thanks to P&O's outmoded structure, shareholders were in danger of missing out on the great cruising growth story. In the past two years, P&O's shares have underperformed its focused cruising rivals, Carnival and Royal Caribbean, by more than 50 per cent. On a similar multiple to theirs, the cruise division is worth £5.7bn – the same as P&O's market capitalisation even after yesterday's 5½ per cent share price rise. This leaves the £2bn of assets to be sold, as well as P&O's ports and commercial shipping interests, in for almost nothing.

To eliminate this yawning discount to the sum of its parts, P&O must continue its Saul-like conversion to shareholder value. This means not hanging on to the money expected from disposals. Unless swiftly invested, this would leave P&O with £500m-odd of net cash, clearly inefficient in such a capital intensive business. It could also become a drag on P&O's achieving its 15 per cent target for return on capital. Lord Sterling, chairman, has promised to look at returning cash to shareholders. He should go further and commit himself.

Spanish move may clear way for EU funding deal

By David White in Madrid and Peter Norman in Brussels

The basis of a deal began to emerge yesterday on European Union regional funding, one of the main areas of conflict in the Agenda 2000 programme that EU leaders will tackle at their Berlin summit starting today.

Spain, which has led a campaign by poorer EU members to maintain regional aid payments, made clear its readiness to go half way towards demands by net-contributor countries for capping the funds.

Ramón de Miguel, Spain's state secretary for Europe, told a joint congress-senate committee yesterday that a total of around €210bn-€220bn over the next seven years would be acceptable to Madrid. This would include the Cohesion Fund for the EU's poorest members.

This figure would be significantly below the €239bn earmarked for structural and cohesion payments under initial proposals drawn up by the outgoing European Commission. Madrid has up to now refused to budge from these original proposals, based on current spending levels.

Germany, which holds the EU's *rotating presidency*, and other net contributors favoured limiting the funds to €200bn, under plans for "stabilising" EU outlays at the average levels for the previous seven years. But Gerhard Schröder, the chancellor, promised Spain *last week* that Germany would make new proposals that would "surely be acceptable" to Madrid.

The range of figures cited by Mr De Miguel was understood to indicate the reduced gap between the latest proposals by the German presidency and Spain, respectively.

Germany has agreed to the principle that Spain and Portugal may continue receiving cohesion funds, even though they are now part of the EU's single currency zone.

The rapprochement between Spain and Germany, following last week's signs of greater flexibility by Italy on financing the EU budget, will put pressure on France and *Britain* at today's talks.

France is holding out for improvements in the farm reform package negotiated this month, while Britain still insists on maintaining its EU budget rebate won by Margaret Thatcher in the 1980s.

Yesterday Mr Schröder appealed for a spirit of "give and take" among fellow EU leaders to make the Agenda 2000 talks a success.

In a letter of invitation, he said that a consensus based on strict budget discipline, solidarity and a fair sharing of burdens would ensure an efficient and effective EU, a successful euro and hold the door open for *the countries of eastern Europe* to join the union.

Mr Schröder made agreement on Agenda 2000 the clear priority of the special summit although he said the Berlin talks would also cover the Kosovo *crisis and the consequences* of last week's mass resignation of the EU commission.

The chancellor left unclear whether the meeting should nominate a new commission president to replace Jacques Santer.

Editorial comment, Page 15

Congress aims to claw back $648m from World Bank

By Richard Wolffe in Washington

Congressmen are expected today to attempt to retrieve $648m (€594.5) of US funds that serve as a loan guarantee for the World Bank in a move which the US administration fears could lead to higher borrowing costs for international development banks.

Robert Rubin, Treasury secretary, has condemned the move to claw back the funds and a presidential veto is expected if such a measure passes through Congress.

The House of Representatives vote centres on a budgetary measure which aims to plug the hole in the federal budget caused by aid for central American countries devastated by Hurricane Mitch.

However, the attempt to reallocate the callable capital – which is a form of loan guarantee – has raised the prospect that Congress may mount a series of raids on $8bn of US commitments to the international development banks.

The World Bank yesterday insisted that the funds were merely a technical part of the US budget, which would not affect the US commitment to meet its obligations for callable capital.

Callable capital – which has never been used – is designed as a second line of defence in case borrowing countries fail to repay their loans and the bank's reserves prove inadequate to cover the shortfall. The World Bank uses the callable capital in order to sell bonds at low costs on global markets. The US stopped committing funds to callable capital in the early 1980s.

Last week Mr Rubin told a House appropriations subcommittee: "If enacted, the rescissionof US callable capital could be perceived as a significant reduction in US political support for the institutions and could lead to a serious market reassessment of the likely US response to a call on [development bank] capital should one ever occur.

"Such a reassessment could increase borrowing costs for the *institutions, costs which would then* be passed on to the developing countries they are mandated to help."

Republicans insist the move does affect US support for the World Bank, or its sister organisations, and point to a similar Democratic measure that reduced callable capital by $902.4m to help pay for earthquake aid to California in 1994.

Todd Tiahrt, the Kansas Republican behind the measure, described the capital as "a relic of discontinued budgetary procedures". In a letter to Congressmen he said: "This was never a reserve fund for the Bank."

Gary Perlin, chief financial officer of the World Bank, said the House vote "would not affect the legal obligation of the US as a shareholder".

He added: "All things being equal, we would prefer to let sleeping dogs lie, particularly at a time of heavy calls on the multilateral banks to be active at a time of difficulty for many of our client countries.

"It is certainly an issue that is of concern to us because it is always *possible that the markets and others* will misinterpret such action."

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Madeleine Albright, US secretary of state, greets Yassir Arafat, the Palestinian leader, who is in Washington for talks with President Clinton on the issue of a Palestinian state. Picture: Reuters

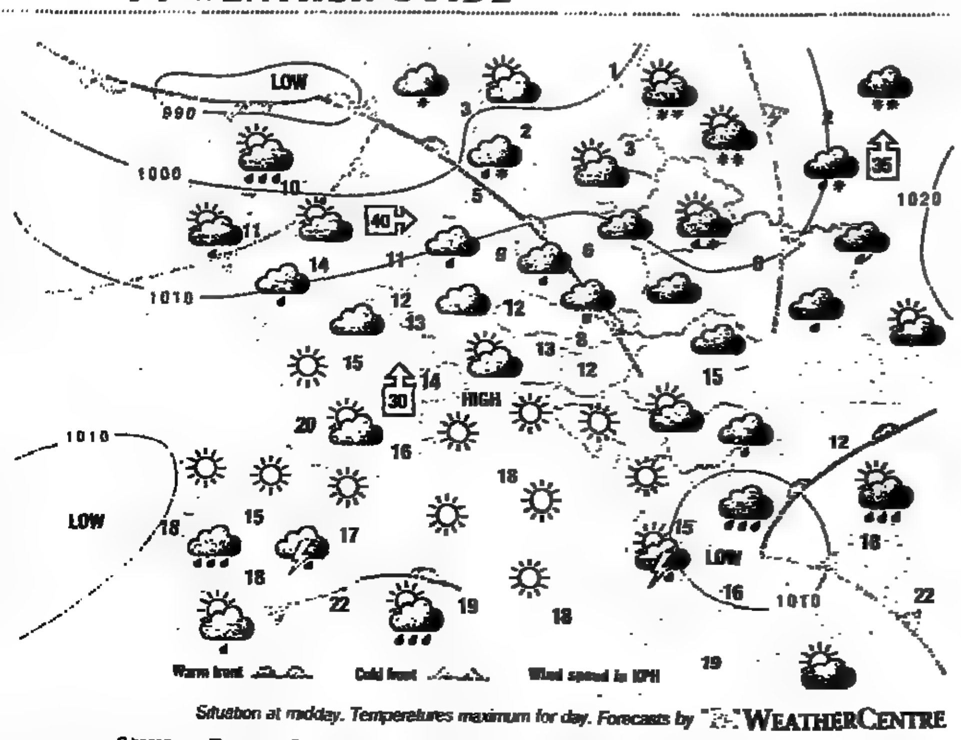
FT WEATHER GUIDE

Europe today

The southern half of Spain and Portugal will be cloudy and humid with thundery rain. The rain may extend to central Spain by evening but further north it will be sunny. Italy will also be sunny but heavy downpours in Greece are possible. France, the Alps, southern Germany and the northern Balkans will be warm with sunny spells. The Low Countries and northern Germany will have a lot of cloud and coastal drizzle but will be mild with some sun. Southern Scandinavia will have rain, preceded by snow.

Five-day forecast

Much of Spain, Portugal, France and southern parts of the British Isles will have showers tomorrow. On Friday, north-west Europe will be brighter but the Iberian Peninsula, southern France, Italy and Germany will have rain, locally thundery.



Situation at midday. Temperatures maximum for day. Forecasts by WEATHERCENTRE

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	32
Accra	Fair	33
Algiers	Shower	22
Amsterdam	Cloudy	11
Athens	Thunder	15
Atlanta	Fair	23
B. Aires	Shower	27
B.ham	Fair	13
Bangkok	Thunder	36
Barcelona	Fair	15
Beijing	Fair	18
Belfast	Shower	10
Belgrade	Fair	16
Berlin	Drzzl	9
Bermuda	Fair	23
Bogota	Fair	19
Bombay	Sun	35
Brussels	Fair	12
Budapest	Drzzl	8
C.hagen	Shower	5
Cairo	Sun	25
Caracas	Fair	30
Cardiff	Shower	11
Casablanca	Shower	20
Chicago	Shower	5
Cologne	Shower	13
Dakar	Sun	33
Dallas	Shower	24
Delhi	Sun	32
Dubai	Sun	31
Dublin	Shower	11
Dubrovnik	Sun	17
Edinburgh	Shower	11
Faro	Thunder	18
Frankfurt	Fair	14
Geneva	Sun	14
Gibraltar	Shower	18
Glasgow	Shower	10
Hamburg	Drzzl	9
Helsinki	Fair	1
Hong Kong	Shower	21
Honolulu	Fair	28
Istanbul	Shower	12
Jakarta	Shower	31
Jersey	Cloudy	12
Johannesburg	Thunder	24
Karachi	Sun	31
Kuwait	Sun	26
L. Angeles	Sun	18
Las Palmas	Fair	21
Lima	Fair	26
Lisbon	Shower	18
London	Cloudy	15
Lux.bourg	Fair	13
Lyon	Fair	18
Madeira	Fair	18
Madrid	Sun	15
Majorca	Shower	17
Malta	Sun	18
Manchester	Rain	12
Manila	Fair	32
Melbourne	Fair	27
Mexico City	Fair	23
Miami	Fair	27
Milan	Sun	18
Montreal	Sleet	5
Moscow	Sleet	2
Munich	Fair	14
Nairobi	Sun	29
Naples	Sun	18
Nassau	Fair	27
New York	Rain	12
Nice	Sun	18
Nicosia	Shower	18
Oslo	Snow	3
Paris	Fair	15
Perth	Shower	24
Prague	Shower	12
Rangoon	Sun	34
Reykjavik	Fair	1
Rio	Fair	30
Rome	Sun	18
S. Frsco	Rain	14
Seoul	Fair	17
Singapore	Shower	34
Stockholm	Fair	2
Strasbourg	Fair	15
Sydney	Shower	24
Tangier	Shower	19
Tel Aviv	Shower	22
Tokyo	Fair	15
Toronto	Shower	7
Vancouver	Shower	12
Venice	Sun	14
Vienna	Fair	13
Warsaw	Shower	5
Washington	Shower	16
Wellington	Fair	21
Winnipeg	Sun	1
Zurich	Fair	15

INSIDE

SocGen and Paribas look for synergies to beat BNP

By Samer Iskandar in Paris

Société Générale and Paribas, the French banks fighting to save an agreed merger, are today expected to raise the stakes in their battle with Banque Nationale de Paris by claiming that the savings and income gains from their merger would be higher than previously thought.

The two initially said there would be a gain of €800m ($880m). Yesterday SocGen and Paribas refused to say whether the new synergies would come from higher income or lower costs. An executive involved in the merger said the synergies had been discovered while analysing the transaction in more detail.

Today's announcement could bolster the banks' defence against the hostile double bid earlier this month from BNP. BNP made its move to take over both SocGen and Paribas, which would create the world's largest bank with assets of $1,000bn, after the two unveiled plans to merge.

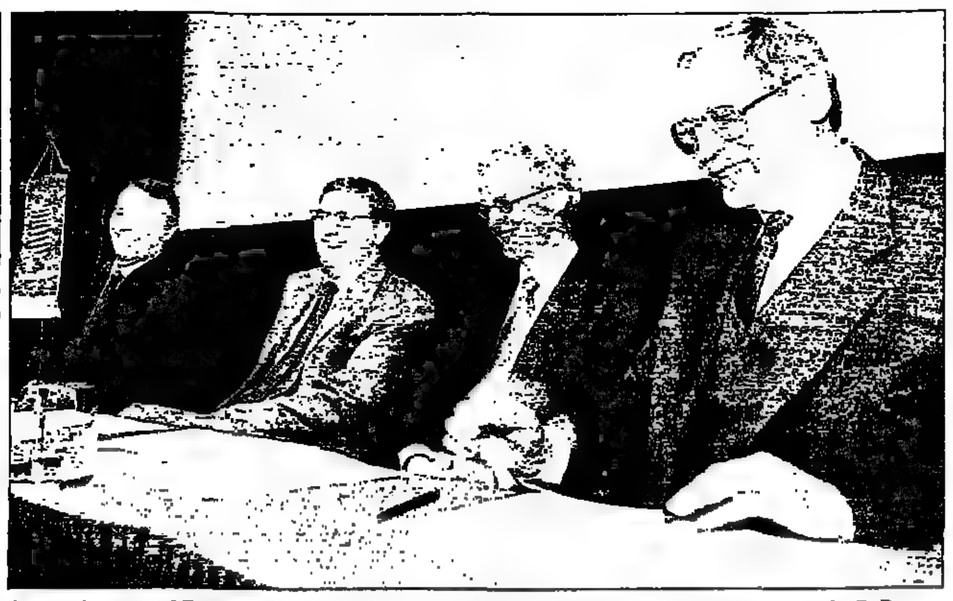
Analysts said today's announcement could also pave the way for SocGen to improve its offer for Paribas. "If they can claim convincingly that the synergies reach €1bn, SocGen could even justify adding a cash component to its offer," said one.

BNP claims its proposed three-way merger offers €1.3bn of synergies, mostly in the form of cost savings. BNP's double offer met a more favourable response from the financial markets than the initial SocGen/Paribas agreement, with the banks' combined market capitalisation rising by roughly 10 per cent in the days following the announcement. SocGen and Paribas shares fell by some 3 per cent after they revealed their plan.

SocGen is offering five of its shares for eight Paribas shares. BNP is offering 11 of its shares for eight Paribas and 15 BNP shares for seven SocGen. Because they are all-share bids, it is difficult to compare the two – investors have to make assumptions on the potential for future movements in the relative prices of SG and BNP shares.

The SocGen and Paribas boards rejected BNP's offer unanimously except for the representative on both boards of Axa, the insurance company which is a leading investor in BNP and Paribas. Axa approved the initial SocGen Paribas deal but, a month later, voted in favour of BNP's plan, which put a higher value on Axa's stake in Paribas.

BNP's offer has been criticised for not guaranteeing a viable future for Paribas. Paribas shares have underperformed those of BNP and SocGen, reflecting analysts' beliefs that BNP's main aim was to gain control of SG. Yesterday, the three shares fell in line with the CAC 40 index of blue chips. BNP and SG fell 2 per cent to close at €77.95 and €171 respectively. Paribas ended at €100.9, down 1.3 per cent.



Joining the wave of European banking consolidation: Den norske Bank's move was announced by DnB chairman Gerhard Heiberg (left), Postbanken chairman Tormod Hermansen (right) and the chief executives

Den norske Bank buys Postbanken for $580m

By Valeria Sköld in Oslo

Den norske Bank, Norway's largest bank, yesterday joined the wave of European banking consolidation by announcing a NKr4.5bn ($580m) acquisition of state-owned Postbanken, creating the eighth largest financial services group in the Nordic region.

The enlarged DnB, with assets of NKr315bn, will have 21 per cent of the domestic market and 15 per cent of retail and corporate banking.

Postbanken initiated exploratory talks with DnB after Christmas, following unsuccessful efforts last year to merge with Christiania Bank, Norway's second largest bank, and Fokus Bank. Fokus has since agreed to be taken over by Den Danske Bank, Denmark's largest lender.

Svein Aaser, DnB chief executive and head of the merged entity, and Olav Fjell, Postbanken chief executive, said they were confident the deal would not be undone by issues that scuppered the merger with Christiania and Fokus.

DnB specialises in a broad range of financial services, including corporate markets, life assurance and asset management. Postbanken controls the largest retail customer base in Norway, has a distribution network as supplier of payment services and has a large customer deposit base.

"DnB gets access to 1.6m customers they should be able to take advantage of," said Bengt Kirkoen, analyst at Fondsfinans in Oslo. DnB and Postbanken expect the new group to generate annual pre-tax cost savings of more than NKr450m by 2003, after restructuring charges of NKr457m in the first four years. The bulk of savings will come from a combined IT system. A total of 450 of the combined group's 7,500 jobs are to go.

Under the deal, DnB will buy Postbanken for 138m DnB shares, worth NKr4.2bn, while NKr300m in cash will be transferred from Postbanken's capital reserves. This values Postbanken at NKr4.5bn, while the collapsed merger with Christiania Bank and Fokus Bank valued it at NKr4.8bn.

DnB shareholders will have 82.3 per cent of the new holding company, while Postbanken, which will be transformed into a limited company, will own 17.7 per cent. The Norwegian state will retain 60.6 per cent of DnB. Analysts said the pricing was relatively low for DnB.

Mr Aaser expects the merger to raise DnB's earning per share by 5-10 per cent annually after it is completed by November. He also expressed ambitions for DnB to do something abroad with a non-Norwegian institution.

Merrill Lynch and DnB Markets were advisers for DnB. Morgan Stanley Dean Witter and Orkla Finans advised Postbanken.

UK stocks market wins SEC approval

By Edward Luce and Vincent Boland in London

Tradepoint, the small UK stock trading system, yesterday became the first foreign securities market to win permission from the Securities and Exchange Commission to establish itself in the US.

However, SEC officials said the move was unlikely to be followed in the near future by the green light for other foreign organisations.

Tradepoint has been granted permission to establish its screens in the US to trade UK equities on condition it remains a small system, with a cap of 10 per cent of the turnover of the London Stock Exchange, the officials explained. Tradepoint's turnover is currently less than 1 per cent of the LSE's.

In addition, Tradepoint will only be permitted to offer access to its system through qualified US brokers. Shares in Tradepoint Financial Networks, which runs the system and is quoted on the AIM market, went from 18½p to 36p.

Large foreign exchanges such as Deutsche Börse and the LSE, which would like a US presence, look set to remain locked out of the market for some time.

The SEC says it is looking at ways of relaxing restrictions on large exchanges, including the thorny requirement that they only offer securities registered under US rules. Given the differences in accounting and disclosure standards between the US and other markets, this effectively shuts foreign exchanges out.

Nic Stuchfield, chief executive of Tradepoint, said its establishment in the US would enable US buyers of UK equities to make substantial cost savings. "US investors regard investing in UK equities as being very expensive," he said. "There is no doubt these costs can be dramatically cut."

Tradepoint has 81 members in Europe. Mr Stuchfield said there were "probably 100" US investors active in the UK equity market who would be targeted for membership.

The exchange is in talks with possible partners about raising new capital. Mr Stuchfield declined to discuss how much money Tradepoint wanted.

Foreign futures exchanges have been critical of the high regulatory hurdles to setting themselves up in the US.

Singapore Airlines set to buy $312m Ansett stake

By Russell Baker in Sydney and Sheila McNulty in Singapore

Singapore Airlines is expected to announce today that it is buying a 50 per cent stake in Ansett Australia, the country's second largest airline, from News Corporation, the media group, for about A$500m ($312m).

The deal will end speculation about the future of News Corp's stake in Ansett and could herald expansion moves by SIA, which is controlled by the Singapore government. With SIA, estimated to be sitting on S$2bn (US$1.16bn) in cash and investments, as a substantial shareholder, Ansett will be in a position to compete with Qantas, Australia's largest airline.

News Corp, which is controlled by Rupert Murdoch, was not a committed long-term investor in Ansett and had not been prepared to fund the capital expenditure required for it to compete in an industry dominated by global carriers.

According to analysts, SIA tried to buy into Ansett in the mid-1990s.

Analysts said SIA also failed in an attempt in the early 1990s to buy a stake in Qantas, which was obtained by British Airways. SIA is among the many airlines to have expressed interest in Thailand's national carrier, which has been forced to consider selling a stake since the regional economic crisis began.

The Ansett deal appears to have the blessing of Australia's federal government, which has signalled it is unlikely to be blocked by the Foreign Investment Review Board.

John Howard, Australia's prime minister, said yesterday: "At present Ansett is owned by two corporations, both of which are foreign."

Ansett's other 50 per cent shareholder is Air New Zealand, which is 42 per cent-owned by Brierley Investments (BIL), the New Zealand investor.

COMPANIES IN THIS ISSUE

MARKET STATISTICS

BARRY RILEY

Benchmarking curse

Warren Buffett, Omaha's (possibly the world's) greatest investor, confesses his ignorance of technology – which appears to extend to current techniques of investment.

His annual statement in the Berkshire Hathaway report does not mention the paraphernalia of load differences, active risk and benchmarks that burden more conventional professional investors. He acknowledges, though, that his main job (and that of his partner, Charlie Munger) is allocating capital. He admits they underperformed the S&P 500 Index last year on an underlying basis – without spelling out by how much.

Buffett is, of course, a long-term investor. He proposes to continue indefinitely even after his ashes are confined within an urn placed in his office. The typical money manager, however, cannot hope for immortality or even longevity.

Benchmarking is a curse of the age. The UK faces imminent upheavals here; a new sector classification system takes effect next week with the objective of global harmonisation. Another shift could come in September with the launch of the global multinationals index, which could subsume 40 per cent of the All-Share Index capitalisation.

The UK stock market is curiously skewed. Four sectors – banks, telecommunications services, pharmaceuticals and oil and gas – account for 48 per cent of the All-Share and 56 per cent of the FTSE 100 (though, strangely, only 4 per cent of the FTSE 250).

However, fashionable information technology represents less than 2 per cent of the All-Share. As for more traditional sectors, four great global industries – chemicals, steel, mining and automobiles – account for just 3.2 per cent in aggregate.

Much analysis of stocks and sectors is focused not on the value (or lack of it) they offer but on who "underowns" or "overowns" them relative to market weightings. Index-tracking funds are deliberately indiscriminate buyers and can easily be manoeuvred into being aggressive bidders for stocks with an inadequate free float.

Benchmarked active managers are almost as vulnerable. The neutral position for a manager who does not have a view on a stock is not to ignore it but to own a full weighting. Warren Buffett does not invest like this, nor does George Soros for that matter. But in the benchmarked world, risk is shifted from managers to clients.

Without a value peg, share prices can become extremely volatile, as in the second half of 1998. It is risky to own shares; from a manager's point of view, however, it is risky *not* to.

Active managers often still take aggressive positions, though. According to Dresdner Kleinwort Benson, UK pension funds are heavily overweight in Allied Domecq, United Biscuits and British Land but underweight in Halifax. They have zero exposure to Eurotunnel. US institutions active in the UK market are very exposed to consumer cyclicals and to chemicals and steel.

Are these positions risky? Hardly more so, perhaps, than "neutral" exposures. Dramatic *shifts can take place* when technical shortages are unexpectedly satisfied, as with the massive sales of big stakes in UK telecom stocks in recent weeks. The telecoms sector index has just tumbled by 11 per cent because of sudden indigestible supply.

The inherent volatility in such a concentrated market is emphasised. Perhaps, too, the sluggishness of the UK market (up only 6 per cent this quarter despite huge available cash resources) is explained by the high prices of the desirable stocks.

Meanwhile Warren Buffett refuses to disclose most of his holdings of equities, to frustrate "piggybackers". Like the comparably incorrect Wim Duisenberg of the European Central Bank, he believes secrecy adds value.

Other professional money managers, though, will notice the opportunity cost of Berkshire Hathaway's $15bn of "cash equivalents". They would be sacked for the same offence in a bull market. But then, they cannot boast the same track record.

POWER PLAY: ABB AND ALSTOM JOIN FORCES

CONSOLIDATION

New force in the power industry

Deal marks the culmination of a year of secret discussions between three of the world's biggest suppliers of electricity generating equipment, writes **Peter Marsh**

Although it has required about 150 secret meetings in cities around the world over the past year, yesterday's agreement between three of the world's biggest suppliers of electrical equipment – the Franco-British Alstom, the Swiss-Swedish ABB and General Electric of the US – which marks the start of the long overdue consolidation of Europe's power engineering industry has its roots in a series of events stretching back to the late 1980s.

In 1989, the UK's General Electric Company (which is unrelated to the US group) and Alcatel of France merged their power generation equipment businesses in a joint venture initially called GEC-Alsthom. This was the basis for a Paris-based company, re-christened Alstom, which was floated last year in Paris, London and New York.

The Franco-British agreement was part of the restructuring of the electricity-generation equipment industry in the 1980s. This process was sparked by the need to bring together individual players – which had been organised mainly as "national champions", supplying state-owned power companies in specific countries – to take account of global economies of scale in manufacturing, research and marketing.

Besides the GEC-Alcatel alliance, the other big merger of the 1980s was that which brought together another two of Europe's electrical equipment behemoths, when Sweden's Asea teamed up with Brown Boveri of Switzerland to form ABB in 1987.

Until yesterday's agreement, ABB and Alstom were in third and fourth positions in the world generator equipment industry, as measured in annual order volumes in gigawatts (billions of watts) of new electricity capacity. General Electric of the US and Siemens of Germany were respectively number one and two.

In 1990, however, GE signed a deal which at the time provoked little discussion but which would eventually lead to much soul-searching by executives in the US and Europe. The US group agreed to license its gas-driven generator technology to GECAlsthom, allowing the Franco-British company to sell it in Europe and other specified regions outside the US until 2015.

At the time, the agreement suited GE perfectly, as it was concentrating on selling its gas-powered systems (based on a proprietary technology in which it has continued to be the world leader) in the US and developing markets such as in Asia.

Gas-driven generators were at the time a poor relation to the older type of equipment powered by oil or coal. In 1990, just 17 per cent of the world's electricity was produced by gas-driven systems, compared with 48 per cent from other fossil fuels. However, gas-powered electricity generation became much more popular during the 1990s, because of the relatively low price of the fuel, lower capital costs and reduced pollution levels.

By the late 1990s, gas's share of world electricity generation had crept up to more than 20 per cent. Of the estimated $60bn of orders placed last year for generation equipment, about 45 per cent was for gas-powered systems, against 42 per cent for the older steam-driven technology predominantly fired by oil or coal.

Because of this growth in gas-fired systems, GE badly wanted to wrest control of its licence from Alstom.

As GE puzzled over how to bring this deal about, an opportunity presented itself. There was a pressing need for ABB and Alstom to come together – in another round of industry consolidation – in a deal which could at the same time lead to the chance to renegotiate the Alstom-GE licence.

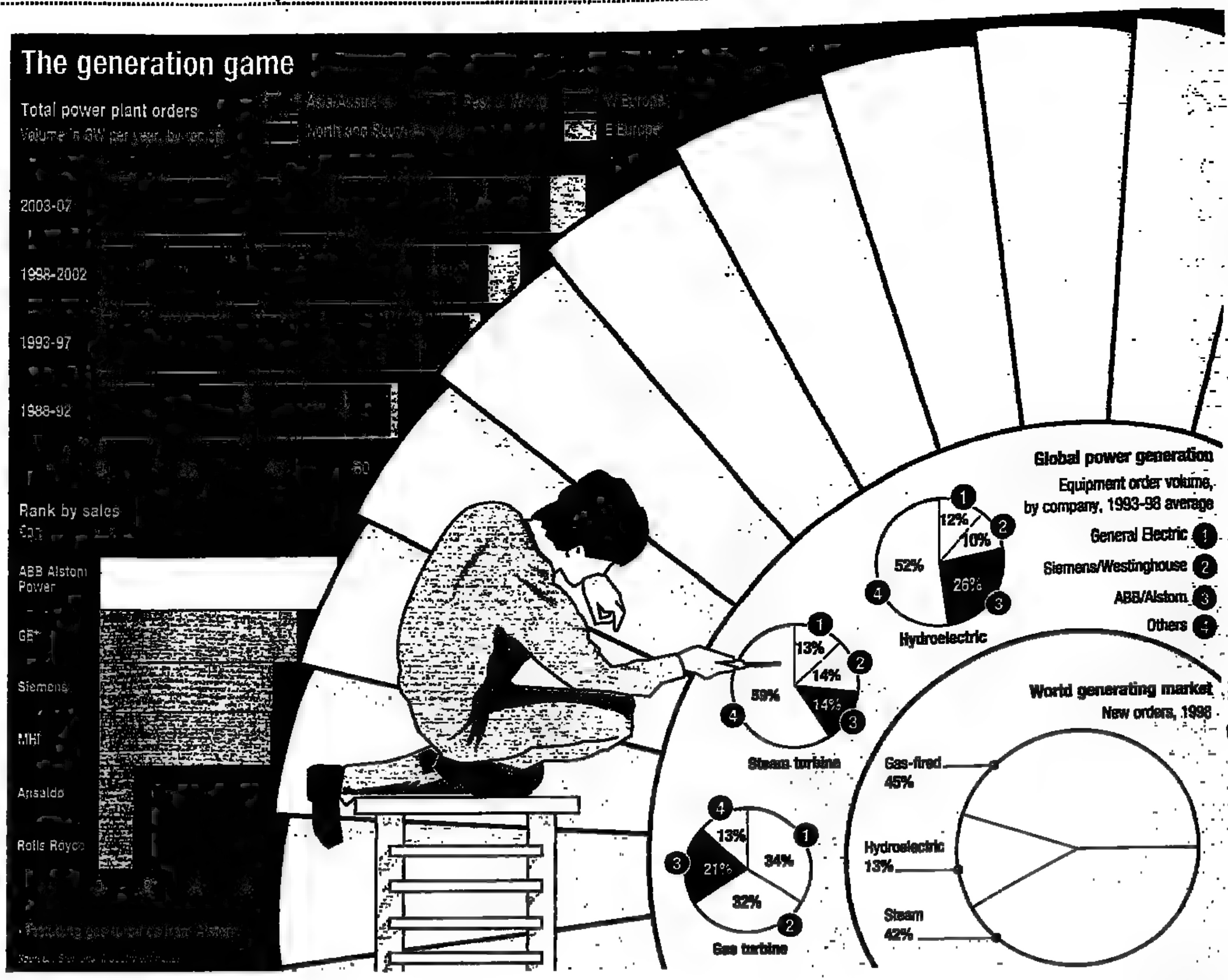
Talks between the two were prompted in part by the economic crisis in south-east Asia, which in the mid-1980s had been responsible for more than 50 per cent of all new orders in the industry.

Another spur was the 1997 deal under which Siemens had snapped up the power equipment division of Westinghouse of the US, one of the industry's smaller players, for $1.5bn.

Given this background, it was logical for the number three and four groups in the sector to seek a cost-cutting deal. (The other large generator supplier world-wide is Japan's Mitsubishi Heavy Industries, which has an estimated 5 per cent of the market.)

But GE had a vital role to play, as the US group had insisted from an early stage that any combination of ABB and Alstom would have to involve the Franco-British company calling a halt to the licence deal.

With the Alstom licence revoked, GE has the chance to push on with its gas-driven technology in Europe. At a stroke, yesterday's agreement gives it an estimated 40 per cent of the world gas-turbine equipment market (based on 1998 order volumes), from 30 per cent previously.



DEAL WINNERS AND LOSERS

GE clear for growth

By Peter Marsh

To most observers, yesterday's agreement yesterday appeared to most onlookers to leave only one clear winner – the only participant in the talks which is not based in Europe.

"I'm elated at an agreement which will help us to increase our strategic presence in Europe," said Bob Nardelli, president of the power systems division of General Electric, the big US industrial equipment and services company.

For Mr Nardelli, who finalised his part of yesterday's agreement at a meeting on Monday night in New York with his Alstom counterparts, the deal realises a long-standing ambition. It means GE can build up its gas-fired generator equipment sales in Europe, with an important competitor removed.

Until yesterday's accord, the competitor was Alstom – to which GE had in 1990 licensed its technology for sale in this region in a 25-year agreement.


Elated: Bob Nardelli realised a long-held ambition

As a result of yesterday's deal, GE is paying Alstom $910m to take over the Franco-British company's heavy-duty gas turbine operations, based around technologies covered by the licensing deal.

The agreement will mean GE adds 2,500 employees, mainly in Europe, and annual sales of gas-driven equipment of €750m ($818m). Most of these sales are in Europe, where GE is relatively weak in terms of overall sales of power-station systems.

The deal gives the new GE gas-turbine operation an estimated 24 per cent of European sales in the continent for this type of equipment – by far the fastest growing part of the power generation business in Europe.

Previously, GE had 9 per cent and Alstom 15 per cent of the gas-driven market. ABB also has a sizeable share, based on its own technology.

After the agreement, GE's power systems division seems likely to have world sales this year of about $10.5bn, from $8.5bn last year. Of that, about 30 per cent will come from the US.

In the past year, GE has benefited from the booming US market for new gas-fired power stations. Over this period, more than $20bn worth of generator equipment has been ordered in the US, in a move triggered by large shortages of electricity generating capacity in the US. Ironically, this surge in US demand has to some degree protected the industry from the effects of the fall-off in orders from Asia.

Siemens 'outsmarted'

By Uta Harnischfeger in Frankfurt

As some analysts see it, Siemens has been outsmarted. The ABB-Alstom Power deal makes the German engineering and electronics group more vulnerable in the global power generation market, and will intensify the price war in the international bidding process.

Siemens is is already undergoing a massive restructuring, shedding unprofitable businesses such as semiconductors. And yesterday's deal will force the group's energy unit, which posted a DM65m (€33.3m, US$36.2m) loss last year, to speed up its integration of Westinghouse, the US group acquired last August, in order to reap the synergies as quickly as possible.

Last week Siemens announced a shake-up at the energy unit, designed to produce annual savings of $600m.

This may come from Siemens' plans to save money by joint purchasing and by cutting its own internal overcapacities in the power plant construction, particularly in the area of steam turbines. There, Siemens plans to cut its German and US workforce by 1,800.

Some analysts also suggested yesterday that Siemens had missed a trick by not bidding for Alstom itself. Publicly, however, Siemens says it was never interested in Alstom, since it would have only added a relatively small market – France – whereas its acquisition of Westinghouse gave it a strong foothold in the US.

Even before yesterday's deal, global overcapacities had started to intensify price pressures. Only gas turbines have been selling well recently, and there is severe overcapacity in steam turbines, which are used for coal-fired power plants.

There, Siemens looks well placed with Westinghouse, which recently had a flood of orders for small-to medium-sized gas turbines.


Claude Darmon: pinpointing first tasks as he starts from scratch

PROFILE CLAUDE DARMON

President has trodden typically French path

By David Owen in Paris

Claude Darmon has not had much time to indulge in his recreation of playing the flute in recent weeks – "Not even on Sundays".

The man chosen as president and chief executive of the new company now faces an equally busy period, and pinpoints his first tasks as defining the new organisation, making senior appointments and setting up the headquarters – "because we are starting from scratch".

Brussels, he says, was selected as the new group's base because it was neutral and "convenient in terms of transportation".

After spending the first six years of his life in Algeria, where his father was a telephone engineer, Mr Darmon, 56, has pursued a fairly typical career path for a senior French manufacturing executive.

A graduate of the prestigious Ecole Polytechnique, he spent the first 10 years of his working life employed directly by the state, first with Insee, the national statistics institute, then by the industry and finance ministries.

He moved into manufacturing with Saint Gobain, the glassmaker, in 1974, joining CGE, as Alcatel Alsthom was formerly known, six years later and GEC Alsthom in January 1993. For four years, he was responsible for the group's transport activity, before becoming deputy chief executive in spring 1996.

Asked yesterday about the potential difficulties of managing a 50:50 joint venture, particularly in terms of speed of decision-making, he said Pierre Bilger – the Alstom chairman whom Mr Darmon describes as "the architect of the deal" – was aware of them and had negotiated full empowerment of the new company in the day-to-day management of its affairs.

Only important strategic moves, such as large acquisitions or divestitures, would require clearance from the two shareholders.

Mr Darmon seemed relaxed about his personal transition from transport to power generation. "It is the same kind of business and the competitors are almost the same," he said. "We are in known country."

PROFILE GORAN LINDAHL

High-flyer who plans to lift revenues off the lows

By William Hall

Göran Lindahl, ABB chief executive, was operating yesterday at the peak performance one might expect of an ABB turbine. He left his office in Zurich after midnight and was up by 5am.

By 9am he was on his way to Brussels armed with a briefcase-load of corporate slides, a carrier bag with a change of clothes and enthusiasm for his latest venture.

After an hour-long press conference in the heart of Brussels he was back in his executive jet and en route to Sweden, his former home, to pick up a directorship of Ericsson, his first non-executive appointment since he took over as chief executive of ABB at the start of 1997.

His whirlwind tour is indicative of the pace of change instilled at ABB, the product of the 1988 merger of Sweden's Asea and Switzerland's Brown Boveri.

When he took over from Percy Barnevik, the man responsible for the ABB merger, some doubted whether Mr Lindahl could emerge from the shadow of one of Europe's best-known business leaders.

But over the past year he has left no doubt that he intends to shake up ABB even more than his predecessor, who remains chairman.

He has pushed through the biggest management shake-up in ABB history, exited the rail transport industry and made ABB's biggest acquisition – the $2.1bn purchase of Elsag Bailey Process Automation. He has also modernised ABB's antiquated capital structure so it can issue equity if it wants to buy a business.

Mr Lindahl is committed to boosting ABB's net margin of 4.2 per cent to between 6 per cent and 7 per cent in three years. But it hinges on sorting out power generation – ABB's biggest and least profitable business.

And there is one other target: lifting ABB's revenues off the low $30bn level where they have been stuck for four years. He admits that ABB is unlikely to meet his $50bn revenue target by 2001. However, he was appointed chief executive partly because of his ability to bring in new business, which suggests that ABB will soon buy into growth businesses.


Whirlwind: Göran Lindahl embodies the change of pace at ABB AP

AMBITIONS

New venture aims to be European champion

By William Hall

The decision to launch ABB Alstom Power at a hastily convened press conference in the Brussels Hilton underlines ambitions to make the new company the "European champion" in power generation. It will be registered in the Netherlands, headquartered in Brussels and will report in euros.

ABB and Alstom said they were "determined to take a leading role in the transformation of the power generation industry by taking early actions, and set a clear signal for other suppliers to contribute to the necessary rebuilding of the industry".

The new company will have pro forma annual revenues of $11bn and a staff of 54,000. It will operate in 100 countries and will be market leader in steam turbines, boilers, hydro plants and turnkey power plants. It will be number two in industrial gas turbines, and number three in heavy duty turbines. It will invest $700m a year in research and development, equivalent to more than 6 per cent of revenues.

Göran Lindahl, ABB chief executive, said the decision to make Brussels the headquarters, rather than Paris or Zurich, would avoid accusations that the new venture was being "taken over" by the Swiss or the French.

The new company will be a 50-50 joint venture. Mr Lindahl, 53, will be chairman and one of three ABB representatives on the supervisory board. Claude Darmon, 56, Alstom deputy chief executive, will be chief executive and the French group will also provide three members of the supervisory board.

ABB is contributing businesses with sales of $8bn, with Alstom contributing $3bn of revenues. ABB's business is less profitable than Alstom's, but it does have some of the most advanced gas turbine technology and a revolutionary new generator technology, known as Powerformer, which can cut power plant costs by up to 30 per cent.

To compensate for the difference in size of the two businesses, ABB will receive $1.5bn in cash. The joint venture will have a "strong balance sheet" and neither partner foresees "any need for further capital injections".

Alstom is selling its heavy-duty gas turbine business to General Electric, its long-standing US technology partner. Meanwhile, ABB has been forced to retain 100 per cent ownership of its nuclear power generation activities – mainly fuel processing and services – because of concerns about the long-term liabilities.

The new venture aims to "substantially increase" margins over the next two to three years, from their current pro forma level of 4.2 per cent, and achieve "above-average profitability". Improvements in efficiency and productivity, and economies of scale, are expected to yield synergy effects of $450m within three to four years, after a one-time restructuring charge estimated at about $600m.

More than 70 per cent of the new company's workforce will be in Europe, with France (7,000), Germany (6,300) and the UK (5,500) the biggest centres of employment. The two companies refused to discuss possible job losses and said this was a matter for the new management team.

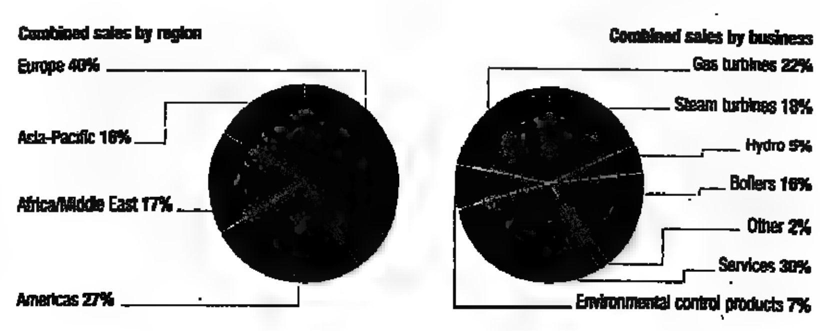
Mr Lindahl said the new company was expected to grow by at least 6 per cent a year.

ABB Alstom Power

Combined orders by region

Revenues (combined)	$11bn (€9.9bn)
Employees	Around 54,000
Global coverage	100 countries
Legal domicile	Netherlands
Head office	Brussels

Source: companies



BRAZILIAN OIL NEW CHIEF WILL HAVE TO OVERCOME HOSTILITY OF 38,000 WORKFORCE TO SUCCEED

Petrobras president aims for tight control

By John Barham in São Paulo

A new president takes over today at Petrobras, Brazil's national oil company, with a mandate to impose direct government control over a state company that has operated as a law unto itself since its creation 46 years ago.

Henri Philippe Reichstul, 49, a banker, former civil servant and university professor, will have to battle against the hostility of the company's 38,000 employees to impose greater discipline over Brazil's biggest company, which posted 1998 gross sales of R$35.9bn (then worth $31.4bn).

The government plans to sell 31 per cent of its stake in Petrobras this year, a process which will require strengthening of its internal controls and cost-cutting to raise its efficiency to the standards of private sector companies. Energy analysts refer to Petrobras accounts as a black box.

Mr Reichstul, a naturalised Brazilian citizen born in Paris and educated at Oxford University, has made no public statements since his appointment. Although he has no background in the oil industry, he is viewed as a competent technocrat who has the backing of President Fernando Henrique Cardoso.

His predecessor Joel Rennó quit nearly three weeks ago after he lost a year-long battle to hang on to power. Mr Rennó was opposed to greater liberalisation of the oil industry and attempts by the government to downsize Petrobras to increase competition in the production, transport and sale of oil and gas.

The government is also appointing a new board, headed by Rodolfo Tourinho, the energy minister. The board will consist of some of the brightest names in Brazilian business and government officials. Until now, Petrobras executives dominated the board, preventing the government from monitoring it effectively.

The sale of the government's minority stake will be one of the main items in the country's aggressive privatisation programme for this year.

International oil companies, which have focused on developing Brazil's impressive potential oil and gas reserves clearly hope that the government will continue forging ahead with liberalisation.

Rex Gaisford, executive vice president at Amerada Hess, the British-American oil company, which has signed two exploration joint ventures with Petrobras, said Mr Reichstul was "a bolt out of the blue. I had no knowledge of him coming and I know very little about him".

Local analysts worry that Mr Reichstul's inexperience in the oil industry will be a drawback. But Mr Gaisford said: "Business awareness and capability are more important as long as he has got good lieutenants in the company."

BoNY acquires RBS Trust

By Jane Martinson and George Graham in London and John Authers in New York

Bank of New York is set to become the world's largest global custodian with assets of $5.9bn after agreeing to buy the custody arm of the Royal Bank of Scotland for more than £500m ($815m).

The cash and loan note offer for RBS Trust Bank follows 35 other acquisitions by BoNY over the past three years.

Tom Perna, senior executive vice-president at the bank, made it clear that yesterday's deal had not satisfied the group's acquisition hunger. "1999 is going to be the year when we see more of these transactions."

The decision by RBS to sell the UK's biggest custody business reflects the difficulty of competing in the highly consolidated high-volume, low-margin market.

Johnny Cameron, managing director of corporate and institutional banking at RBS, said the bank had decided to sell its investor services business after a strategic review. "It needed a committed parent and to be part of a bank that had investor fund services at its core."

Although one of the UK's largest custodians, RBS Trust Bank has been barely profitable, making just £5m last year after three years of losses. In common with other regional operations it has struggled against the three US-owned groups which dominate global custody: BoNY, Chase Manhattan and State Street.

Yesterday's price represents a premium of £200m over net assets. About £200m of the payment will be deferred until next year with the rest paid as part of an earn-out.

Mr Perna said cost savings would amount to millions of dollars although any job cuts would be through natural attrition. About 1,500 people will be transferred as part of the deal.

RBS created the investor services division in 1997 when it acquired the custody business of SG Warburg and Mercury Asset Management. MAM, the UK's largest pension fund manager, has a 30 per cent stake in the business to be sold.

Not satisfied: Tom Perna is looking for more acquisitions

The transaction will help to repair RBS' capital base, improving its Tier 1 capital adequacy ratio, which stood at 6.6 per cent at the end of September, by 0.3 of a percentage point.

RBS has maintained lower capital ratios than most other UK banks, with more of its capital in the form of preference shares rather than pure equity. This led Standard & Poor's, the ratings agency, to cut its credit rating last December to A+.

Ruchi Madan, banking analyst at Paine Webber, said that the deal was favourably priced, adding: "This deal is additional confirmation of Bank of New York's strategy to leverage its scale and take advantage of consolidation trends in the custody business."

VLSI ready to talk to Philips

By Louise Kehoe in San Francisco

VLSI Technology, the Silicon Valley chipmaker that recently rejected a hostile takeover bid from Philips Electronics, of the Netherlands, is now open to discussions with its suitor, prompting speculation that Philips may be willing to raise its bid.

Earlier this month, Philips launched a hostile $17-a-share, or $777m, takeover bid for VLSI, a leader in "system-on-a-chip" technologies that incorporate the core functions of electronic products such as cellular telephones on to a single semiconductor device. VLSI had 1998 revenues from continuing operations of $548m.

In a letter written on Friday, and made public yesterday, Alfred Stein, chairman and chief executive of VLSI, told Arthur van der Poel, chairman and chief executive of Philips Semiconductors International, that VLSI would be open to discussions.

"We will look forward to working out a process for discussions with you," said Mr Stein. He suggested that Philips' investment bankers and lawyers contact their VLSI counterparts.

Last week, VLSI rejected Philips' initial offer as "inadequate" and said it would pursue "strategic alternatives" to Philips' bid. Although the chipmaker is understood to have been in contact with other potential buyers, the company did not close the door to a higher bid from Philips.

Mr Stein's letter was included in a VLSI filing with the Securities and Exchange Commission.

This also dealt with the technical issue of setting a date on which shareholders of record should have the right to vote on Philips' proposal to oust VLSI's board of directors. VLSI set April 1 as the date.

VLSI shares were trading at $19⅝ in mid-session yesterday, down $1/16 from Monday's close. Philips was trading on the New York Stock Exchange at $77⅝, down $2¼.

Varig calls emergency talks

By John Barham in São Paulo

Varig, the Brazilian flag carrier airline and Star Alliance member, is holding an emergency shareholders' meeting today to seek a solution to its deepening crisis.

The company is facing its worst period since its foundation in 1927 as a regional airline in southern Brazil. It is losing money and is overwhelmed by debts. Brazil's 40 per cent devaluation of the Real in January has pushed it closer to the brink. Its medium and long-term debts of R$1.69bn (then equivalent to US$1.39bn) compare with equity of just R$194.7m.

Although the company says it is managing to service its debts, analysts fear Varig could become one of the first Brazilian companies to fail following the devaluation.

Unlike Varig, most Brazilian companies and banks carry relatively little debt and many hedged their dollar liabilities before devaluation.

However, a debt crisis involving a large and well known company like Varig would complicate efforts by Brazilian private companies and the treasury to re-enter capital markets.

Standard & Poor's, the New York rating agency, does not rate the company but does assign a rating to one of its dollar-based transactions. The agency rates the transaction, a securitisation of air fares between US and Brazil, as treble C plus. The rating is on creditwatch with a negative outlook.

Bitter disputes over control have addded to its problems. The board, which includes representatives of Varig's foreign creditors, attempted to oust the president appointed by an employee-controlled foundation which controls 87 per cent of the company's shares. The board says Fernando Pinto, the president, has done too little to cut costs and return the company to profit.

January's devaluation has brought the crisis to a head. Varig has had to cut routes as Brazilians travel less overseas. The devaluation also increased its dollar-based debts.

Competition from larger international carriers able to offer better service, more modern aircraft and lower fares has only compounded the company's difficulties.

Although these problems afflict most of Brazil's airlines, Varig has suffered more than most, in part because of the timid leadership of Mr Pinto. His powers are limited by the company's shareholder structure which militates against aggressive cost cutting.

Liberalisation opened once-profitable routes to new entrants willing to fight a price war to win market share. Varig, unable to fight back due to its heavy debts and high costs, has simply watched its lifeblood drain away.

Yahoo! backs the future of internet radio

By Roger Taylor in San Francisco

Listening to radio over the internet is an irritating experience. Music can sound like it is being played through a transistor radio locked in a bathroom cabinet. And the broadcast is often subject to breaks caused by congestion.

Internet radio was largely associated with non-stop broadcasts of Grateful Dead records. So it might seem strange that Yahoo!, the leading internet portal, is said to be considering paying more than $4bn for Broadcast.com, the largest internet radio company.

But as Broadcast.com points out, this is early days: "Internet radio is less than four years old. The technology cannot get any worse."

The potential for internet broadcasting is enormous. It makes it possible for the smallest local radio station to broadcast worldwide. It also sidesteps the limited availability of the radio spectrum, which limits the number of stations that can broadcast in any one area.

Take The House of Blues, an entertainment company that operates several venues. Setting up its own radio station would be challenging. But with relative ease it has set up an internet broadcasting operation to generate extra revenues from the performances it stages.

To date the biggest money spinner for internet broadcasting has been corporate news announcements. Companies can talk to investors and analysts through an webcast for far less than it would cost to set up a conference call.

Although standard internet connections can transmit voices at a tolerable level of quality, music and video are still far below the standards consumers expect. Real Networks and Microsoft, the two leading producers of software for transmitting streaming media, are both working to improve quality.

However, the big break will come when broadband connections, capable of handling much faster rates of data transmission, become widely available.

The internet portals – the search engine sites which aim to provide a gateway to all other services on the internet – know that audio and video over broadband connections are set to become among the most important internet applications. They need to buy a stake in the new "media-rich" internet.

One option would be to buy Real Networks, the company that produces the most widely used software for transmitting streaming media. The business is seen as a likely takeover target.

The other option is to buy one of the webcasting companies such as Broadcast.com and Intervu which provide the infrastructure broadcasters need to transmit their programmes over the internet.

Broadcast.com has established itself as the best-known name in this area. Unlike competitors, it not only puts radio stations on the internet but also operates an internet site through which stations can be accessed, giving the company a high profile.

Yahoo! and Broadcast.com have not yet publicly commented on the possibility of a deal and any agreement could be some way off. But a deal makes sense and if Yahoo! does not buy Broadcast.com, one of its competitors probably will.

US-type mall ruffles feathers in Canada

Viability may hinge on discount retailers over border, writes **Scott Morrison**

Mills, the US mall developer, is hoping to export its "destination shopping" concept to Canada by building an enormous C$350m (US$232m) shopping centre just north of Toronto. It would be the first large shopping mall built in Canada in a decade and would be home to a host of US retailers poised to enter the Canadian market.

Discount stores plus entertainment: Larry Siegel and a Mills shopping mall in Ontario, California

Mills has joined with Cambridge Shopping Centres, a leading Canadian property group, to build the 1.4m sq ft mega-mall. Scheduled to open in late 2001, Vaughan Mills would mark the US company's first foray into the international market, where Mills needs to expand to maintain its rapid growth.

Mills has developed a niche market in the US by building super-regional malls housing cut-price retailers, manufacturers' factory outlets, speciality stores, interactive entertainment venues and restaurants, all organised into "neighbourhoods" that resemble theme parks.

Unlike traditional shopping malls, Mills centres do not feature department store anchors. Larry Siegel, Mills' chief executive, says his company's concept has succeeded because consumers want to be entertained while they shop for bargains.

But Mills has met stiff resistance from Cadillac Fairview, one of Canada's largest commercial real estate owners and a Cambridge rival. Cadillac has argued that the project would steal business from local merchants and could force two nearby malls to close. The two malls are either managed or partially owned by Cadillac.

Vaughan Mills officials reject Cadillac's claims, saying the new centre would not compete with traditional malls because it would offer different products through retailers new to Canada. And as Mills' seven existing US malls have become bona fide tourist attractions, the officials claim Vaughan Mills would draw customers from afar and generate spill-over business for local retailers.

The dispute is being played out before the regional council, which was expected to rule on the Mills proposal by late April. Mr Siegel declines to be drawn into the war of words between the Canadian rivals, but Paul Gleason, Cambridge's spokesman, argues that Cadillac's campaign amounts to little more than fear-mongering. "This is clearly a case of a company using questionable tactics to stop free enterprise through malicious and unsubstantiated rumours, and inaccurate hypothetical statements being passed off as facts."

Analysts say that while Mills is currently building several US centres, it must expand abroad because the US market for such mega-malls is reaching saturation. Mills hopes to develop three other Mills centres in Canada as well as expand into Europe. The US company, a publicly traded real estate investment trust, has announced a joint venture with Arena, the Spanish developer, to build malls in that country, and is considering projects in Italy.

But the Mills concept is untested outside the US, where the art of mass commercialisation has been taken to new heights. Analysts say Canada does not have enough retailers to fill a mall the size of a Mills centre. The project's success will depend on attracting US discount retailers that have not yet entered the Canadian market, such as Burlington Coat Factory, JC Penney Outlet Store and Off 5th – Sak's Fifth Avenue Outlet – which have opened stores at all of Mills' US malls.

These stores have not yet committed themselves to the Vaughan Mills project, but Mr Siegel says dozens of US retailers have shown interest in the Canadian project and he expects to announce tenants this summer. However, sceptics such as Tom Smith, Cadillac's vice-president of development, question whether US retailers would open off-price outlets in Canada, where they do not yet have full-price stores. Mike Hough, a real estate analyst at HSBC Securities, said: "Is there a place for a Mills regional mall in Canada? It hasn't been proven yet."

Many observers, however, predict that Mills will win approval for its first Canadian mall and they expect that it will house numerous US retailers aiming to crack the Canadian market. That could be a positive development for the region as well as for Canadian shoppers, who seem just as eager as their US counterparts to have a bit of fun while looking for a good deal.

NEWS DIGEST

VENEZUELAN TELECOMMUNICATIONS

CANTV hit by government threat to freeze rates

Shares in CANTV, the Venezuelan telecommunications provider, yesterday plunged for the second day after the government revealed it might freeze the company's rates. The price of CANTV's American Depositary Receipts yesterday fell to $16⅝ by midday, down from $18 23/32 on Monday. In Caracas CANTV's type D shares traded at 1,370 bolivars by early afternoon, down from 1,505 bolivars at the start of the week.

Late on Monday the government said it was considering freezing CANTV's basic monthly rates until the third quarter of this year. According to a contract drawn up when CANTV was privatised in 1991, the company is granted a quarterly rate increase based, in part, on inflation, which reached 30 per cent in 1998.

The move renewed fears that increased government intervention will adversely affect deteriorate the business environment, particularly for public service companies. "Investors abroad are seeing this as a potential breach of CANTV's contract," said Gonzlo Alonzo, a trader with Activalores, a local brokerage.

Earlier this month the government backtracked on a 38 per cent electricity rate increase granted by the outgoing administration last December. As a result the share price of Electricidad de Caracas, the only publicly traded utilities company, plummeted from its high of 240 bolivars for the year to 164 bolivars yesterday. Franciso Aguerrevere, the head of Electricidad, strongly criticised the government's policies in the company's shareholder meeting on Monday, saying no recovery from the current economic crisis was in sight. Investors are awaiting Thursday's announcement of a comprehensive economic plan by Hugo Chavez, the controversial former coup leader who took office as president on February 2, following a land-slide election victory last December. **Raymond Colitt, Caracas**

BIOTECHNOLOGY

PathoGenesis hit by poor sales

Shares in PathoGenesis, the Seattle-based biotechnology company, collapsed in morning trading yesterday after it announced disappointing first-quarter sales for its lone product, TOBI, an antibiotic for cystic fibrosis patients. After closing at over $34 on Monday, the company's stock price plummeted to just $12 in Tuesday midday trading.

Disappointing sales throw into question the company's go-it-alone marketing strategy for the product. Whereas most biotechnology companies team up with pharmaceutical groups at the sales stage, PathoGenesis decided to promote the product on its own. While the strategy gives PathoGenesis more control, building an effective sales force in a competitive market has proved more difficult than anticipated.

"We firmly believe TOBI's sales potential remains highly promising, because the drug has been proven to work extremely well," said Wilbur Gantz, chief executive. "Our task is to convince more doctors that their patients will significantly benefit from the chronic use of TOBI." The company has added seven sales people to its 24-person sales force over the last few months to boost its marketing effort.

PathoGenesis expects to make losses per share for the first quarter of 30 cents, against estimates from First Call, the research group, of earnings of 20 cents. The company warned of a net loss for the year of $3.3m-$4.1m, or 20-25 cents per share.
Victoria Griffith, Boston

UTILITIES

Duke steps up Endesa fight

Duke Energy, the US utilities group, yesterday stepped up its campaign for control of Endesa Chile, the country's largest electricity generator, by promising that if it wins its target it will sell its other assets in Chile.

Bruce Williamson, president and chief executive of Duke Energy International, said the group would sell its 25 per cent stake in the Nueva Renca gas-fired power plant near Santiago, which is a joint venture with Gener, another Chilean generating company.

The US group has offered $2.1bn for 51 per cent of Endesa Chile, one of Latin America's largest generators. Shareholders in the Chilean company will meet on April 8 to vote on changes to the statutes which would lift the current limits on investor concentration from 26 to 65 per cent.

A Duke official said yesterday the company had been lobbying shareholder groups, including Chile's powerful pension funds and holders of ADRs traded in New York, ahead of that meeting. "I think the message today is that we want to ensure there is no conflict of interest," he said.

Nueva Renca is one of three new thermo-electric instalations in the country which uses gas transported by pipeline from Argentina.

Shareholders in Enersis, the Chilean electricity distributor which holds 26 per cent of Endesa Chile, will meet next week to vote for a second time on changing the company's own statutes on investor limits. That vote is linked to a $1.45bn bid by Endesa of Spain to double its current 32 per cent stake in Enersis. **Mark Mulligan, Santiago**

Unicom to sell plants

Unicom, the Illinois-based utility company which takes in the Commonwealth Edison electricity supplier, is selling six coal-fired generating plants to California-based Edison International for $4.81bn. The deal comes against the background of growing deregulation in the US electricity industry.

On the one hand, it will provide a $1.7bn gain for ComEd, after tax, allowing it to write down some of its nuclear generating assets. These are currently valued at more than $9bn and account for about half its generating capacity. ComEd also plans to spend close to $4bn over the next five years to improve its transmission and distribution system, and the proceeds from the Edison deal will help fund this.

On the other, the sale should introduce more competition into the state's electricity market. In addition to buying the Unicom assets, Edison has committed to build 500MW of gas-fired generating capacity in the city of Chicago.
Nikki Tait, Chicago

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INSURANCE MARKET FORECASTS FURTHER REDUCTION FOR 1997 AND LOSS FOR 1998

Lloyd's shows sharp fall in 1996 outcome

By Andrew Bolger

Lloyd's, the international insurance and reinsurance market, yesterday reported reduced profits for 1996 and forecast it would make still smaller profits for 1997 and a loss for 1998.

Preliminary results for Lloyd's 1996 underwriting year showed pre-tax profits of £606m ($988m) after members' personal expenses, compared with £1.15bn for 1995. The market reports final results three years in arrears. The 1996 result comprised a "pure year" profit of £359m, down from £1.01bn, and a net release last year of reserves from prior years of £247m, up from £144m in 1995.

Lloyd's said early projections from syndicates of their results for 1997 and 1998 had also been collected. These figures were for the "pure years" only. The eventual results for those years will reflect any movements in prior years' reserves when the accounts are closed, and further adjustments of the pure year figures.

At this stage, the pure year projection for 1997 is an aggregate profit of £70m and for pure year 1998 an aggregate loss of about £60m, reflecting deteriorating conditions in the market.

"The overall 1996 figures are in line with market projections said Ron Sandler, chief executive of Lloyd's.

"The combination of falling premium rates and worsening claims experience has affected the world's insurance industry over the last two years.

"These adverse factors are reflected in the revised projections for 1997 and may continue to affect the projection for 1998."

Final figures for the 1996 year will be published in Lloyd's global results and annual report in early May. Projected results for the 1997 and 1998 years of account will also be published then.

There were 167 syndicates trading at Lloyd's in 1996 with an aggregate capacity of £9.99bn. This year there are 139 syndicates with an aggregate capacity of £9.87bn.

P&O plans £2bn disposal programme

By Susanna Voyle

Peninsula and Oriental Steam Navigational Company yesterday said it was returning to its maritime roots with a £2bn ($3.26bn) disposal programme – and lifted its dividend for the first time since 1990.

Lord Sterling, P&O chairman, said the future of the business was in cruises, ferries, ports and logistics. The group will dispose of its property interests, float its Bovis construction business and sell the Earl's Court Olympia exhibitions arm – moves which should raise more than £2bn based on current book values. The businesses, which employ more than 5,500 people, will be sold over three years.

The group will also seek listings in London, New York and Amsterdam for P&O Nedlloyd, the 50/50 joint container shipping venture. Shares in P&O rose 45p – or 5.5 per cent – to 860½p. Shares in Nedlloyd of the Netherlands jumped 18.6 per cent to €21.

Announcing annual pretax profits down almost 15 per cent at £368.9m, Lord Sterling said the announcement was probably the most important he had ever made.

"What this is really about is where P&O is going," he said, adding that it was sad to dispose of businesses, many of which had been part of P&O for more than 20 years.

The group is pinning its future on the growing cruise market, hoping that an ageing population with more disposable wealth will spend increasing amounts on travel. "When you see through the mists of what is happening in the Far East, you see world trade is going to increase and the world is getting smaller while people are getting more leisure time," said Lord Sterling.

It is the second disposal programme P&O has announced in three years. In March 1996 the group announced the sale of £1bn of assets including the flotation of Bovis Homes, its housebuilding subsidiary.

The results for 1998 were hit by a £47m loss on setting up a bulk carrier joint venture while the 1997 figure was bolstered by a £70.6m gain on the disposal of retail property. Turnover was flat at £5.91bn (£5.92bn). The final dividend, up 1p to 18p, takes the total to 31.5p (30.5p).

The move out of property, is expected to net the group more than £1.45bn. The book value of its investment property is £1.1bn while development property is £350m.

Lord Sterling: will steer P&O back to its roots Brendan Corr

Iceland to shun artificial colours

By Peggy Hollinger

Iceland, which sparked a national controversy when it banned genetically modified ingredients from its own-label products, is seeking to relaunch itself as Britain's ethical food retailer by eliminating artificial colours and flavours from its ranges.

Malcolm Walker, chairman and chief executive, said he believed the stance the company took early last year on GM ingredients had "brought in thousands of new customers", helping Iceland to report sales increases yesterday substantially ahead of the industry.

"The GM issue has done more for our image than anything we have ever said on the value of frozen foods," Mr Walker said. "We think we have found something with this Fighting for Better Food campaign."

Mr Walker said the group would have eliminated artificial colours and flavours from own-label products by the end of the year. It had also demanded that suppliers of refrigerators and freezers sold in Iceland stores, such as Zanussi, should provide environmentally friendly products.

However, Mr Walker said it was impossible to separate the impact on sales of Iceland's GM stance from other initiatives, such as the introduction of a nationwide home delivery service.

Both had contributed to a 10 per cent rise in sales for the first 11 weeks of the current financial year and a 12.6 per cent rise in like-for-like sales for the year to January 2. Pre-tax profits increased from £43.5m to £55.1m ($90m), although 1997's figure was depressed by £6.7m of exceptionals. Group sales were 11.2 per cent higher at £1.74bn.

Mr Walker said the group planned to launch internet and interactive television shopping services by the end of the year.

The initiatives were part of the reinvention of Iceland, which was investing an extra £5m this year in repositioning its brand "slightly more upmarket" through new advertising, product packaging and store environments.

Mr Walker insisted, however, that the group was "not going posh. We are still very much about the mass market. We just want to take out some of the prejudice which middle England has about Iceland."

The final dividend of 4p put the total at 5.8p (5.4p) and earnings per share were up from 11.68p, after exceptionals, to 20.03p.

BTR Siebe to become Invensys

By Thorold Barker

Two of the best-known names in British engineering are expected to disappear next month after a decision by BTR Siebe to change its name to Invensys.

Lord Marshall, chairman of BTR Siebe, said: "We are trying to focus on what our businesses are about: innovation; invention; and systems work. BTR Siebe was quite a mouthful and sounded like we had added two more initials [CB] to BTR."

The group announced plans to find a new name after February's merger. The change to Invensys will be put to shareholders on April 16. The rebranding will bring to an end a combined history in which Siebe and the Birmingham Tyre and Rubber Company rose from obscurity in the 1960s to become two of the largest engineers in the FTSE 100.

The break with the past will cost about £500,000 ($814,000), mainly for legal searches to check the name had not already been registered in any of the group's markets. Lord Marshall said other costs, such as changing stationery, had to be incurred anyway because of the merger.

The rebranding of Diageo in 1997 after the merger between Guinness and Grand Metropolitan is believed to have cost about £500,000.

One analyst said: "A few years down the road we will see if they have been successful in integrating the two companies. I don't know if a name will make any difference."

Granada buys into Scottish Media

By John Gapper

The "big three" ITV companies' dominance of the national television channel was further reinforced yesterday as Granada agreed to pay £110m ($180m) to acquire an 18.6 per cent stake in Scottish Media, the fourth largest ITV company.

Although the move could eventually lead to a full bid, Granada said it was acquiring the stake from Mirror Group mainly to ensure that foreign companies did not hinder a new level of co-operation within ITV.

Overseas companies including CanWest Global Communications, the Canadian broadcaster, and TF1, a French group, approached Mirror Group after it indicated it wanted to sell its stake in Scottish, which runs several ITV franchises, and concentrate on newspapers.

However, disappointed bidders for Mirror's stake may still attempt to buy 18.6 per cent of Scottish held by Flextech, the pay-TV group. Flextech is seen as likely to sell the stake if it receives a good offer.

Granada is itself barred from buying the Flextech stake for the next six months. It said it had "no present intention" of making a bid, thereby blocking itself from doing so under Takeover Panel rules. However, Granada said that this could change if a rival made a bid, or acquired more than 15 per cent.

If it acquired Flextech's stake itself, it would go beyond 29.9 per cent, which would trigger a bid.

Charles Allen, chief executive of Granada, said there was "nothing further we can do in the medium term, but over the years this may be a useful bargaining chip". It was "not in any rush to do anything" further.

Mr Allen said the "key motive" had been to avoid foreign companies becoming involved in ITV: "We have been trying to get ITV to work together and if it fell outside ITV, other agendas might be introduced."

Mirror's year-end debt of £489m has been reduced by about £150m with the sale of the stake and its former headquarters at Holborn Circus. The sale of the stake will produce a net gain of £47m over the average price paid.

The sale has to be approved by Mirror's shareholders, since Trinity has made a bid for the company, which has gone to the Monopolies and Mergers Commission. Scottish shares closed up 20p at 865½p, and Mirror closed 1½p down at 209p.

RESULTS

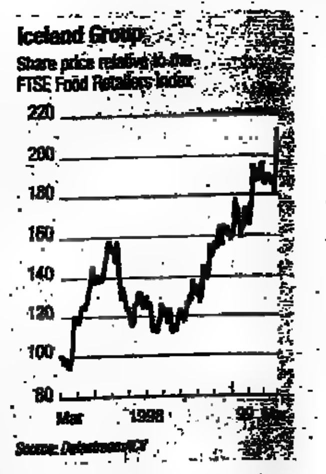
	Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Allied London ... 6 mths to Dec 31	7.9□	(9.98□)	2.02	(13.5♥)	1.4	(13.9)	1.24	July 1	1.24	-	4.2
Amey ... Yr to Dec 31	476.3	(389.4)	18.7♥	(14.6)	42.02	(31.11)	9	June 4	7	13.5	11
Ascot ... Yr to Dec 31	165.6	(234.9)	27	(30.2♥)	30.9‡	(30.5)	7.5	July 2	6	11	9
Baynes (Charles) ... Yr to Dec 31	304.1	(273.1)	19.4♥	(24.2♥)	6.99†	(9.39)	2.05	May 28	2.05	3.2	3.2
BLP ... Yr to Dec 31	37.8	(32.7)	1.95♠	(2.51)	8.3†	(27.6)	2.25	June 2	5	5	7.5
Boosey & Hawkes ... Yr to Dec 31 ✠	98.9	(94.8)	6.04♠	(7.11♠)	18.9	(25.1)	7.72	May 17	7.83	10	10
Capital Inds ... Yr to Dec 31	98.8	(94.9)	1.38L♠	(4.8♠)	4.1L	(9.6)	nil	-	3.25	1	6.1
Croda Intl ... Yr to Dec 31	375.3	(429.1)	14♠	(39.2♠)	1.8	(19.4)	6.8♣	Apr 1	6.8♣	10.35♣	10.35♣
Dawsongroup ... Yr to Dec 31	57.4	(55.4)	9.44	(8.61)	19.6	(18.2)	6	May 28	4.6	7.5	6.7
Delta ... Yr to Jan 2 ★	962	(998.7)	40.3♠	(22.5L♠)	13.1	(29.5L)	3.5	June 1	11.6♣	6♣♣	16♣
Donatantonio ... Yr to Jan 31	10.2	(10.2)	1.27	(1.74♥)	6.1	(8.8)	2.4	May 24	1.65	3	2.25
Dowding & Mills ... 6 mths to Dec 31	59.8	(59.3)	5.49	(0.844♠)	2.3	(1.04L)	1.18	May 7	1.13	-	3.3
EBC ... Yr to Dec 31	74.8	(67.9)	1.45	(1.17)	9.48‡	(7.19)	2.3	May 14	1.75	3.5	2.85
Fitch ... Yr to Dec 31	30.8	(21.7)	2.58	(2.17)	4.8†	(6.63)	0.69	May 7	0.6♣	1	0.86♣
Frogmore Estates ... 6 mths to Dec 31	168.4	(112.2)	21.9	(16.5)	27.9	(20.5)	5	Apr 23	4.5	-	21
Hardy U'writing Φ ... Yr to Dec 31 ☆	-	(-)	3.13	(2.23)	18.7	(20.8)	6	May 11	6	6	6
Hay & Robertson ... Yr to Dec 31 §	20.6	(22.8)	2.32	(2.16)	7.8	(7)	0.5	May 21	0.3	0.5	0.3
Hunting ... Yr to Dec 31	984.1	(1,319)	40.4♠	(38.8♠)	17.6	(13.7)	5.75♣♦	Apr 1	3.25	9.25♣	9.25
Iceland ... Yr to Jan 2	1,742	(1,566)	55.1	(43.5♠)	20.03‡	(11.68)	4	May 28	3.6	5.8	5.4
Lands Improvement ... Yr to Dec 31	8.69	(12)	2.55♠	(0.702♠)	8.86	(3.26)	3	June 1	3	4.75	4.75
Macfarlane ... Yr to Dec 31	192.1	(193.4)	18.1	(22)	8.37	(12.23)	2.95	May 27	2.95	4.53	4.5
Moorepay Φ ... Yr to Dec 31	8.36	(5.28)	2.04	(1.39)	12.39†	(9.04)	2.25	#	1.8	5.95	4.67*
Newport ... Yr to Dec 31	4.57□	(3.76□)	0.58♠	(0.305♠)	6.37†	(3.38)	2	May 27	1.25	2	1.25
Pegasus ... Yr to Dec 31	15	(12.5)	0.928	(1.7)	18.8†	(29.3)	5	June 4	5	7.5	7.5
P&O ... Yr to Dec 31	7,434	(7,144)	368.9♠	(433.9♥)	41.7	(53.1)	18	June 8	17	31.5	30.5
Scot Metropolitan ... 6 mths to Feb 15	9.62□	(9.26□)	4.29	(4.83)	2.86	(2.93)	1.4	Aug 17	1.3	-	3.3
Severfield-Reeve ... Yr to Dec 31	129.8	(121.1)	11.9♥	(9.16)	43.88	(32.28)	7	June 1	6.25	12	10
Sherwood Group ... Yr to Dec 31	152	(169)	6.56L♠	(9.04)	8.9L‡	(4)	2.3	May 21	2.3	3.6	3.6

Investment Trusts	NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Gartmore Smaller ... 6 mths to Feb 28	383.1	(361.1‡‡)	0.408	(0.323)	2.8	(2.2)	2	Mar 31	1.5	-	6.25
Jupiter Split ... Yr to Dec 31	338.49	(323)	6.59	(7.68)	8.63	(10.82)	4.38	#	4.13	8	7.75
Merchants ... Yr to Jan 31	415.2	(410.8)	15.6	(15.2)	15.21	(14.88)	3.75	May 19	3.75	15.59♣♣	14.25

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. □Net rental income. ♠After exceptional charge. ♥After exceptional credit. ‡On reduced capital. †On increased capital. ✠Pro forma. ♣Foreign income dividend. ♣♣Includes FID element. ★ Comparatives restated. ΦAim stock. ☆ Comparatives for 11 months. §Comparatives for 15 months. ♦Deemed as second interim: final of 0.5p also proposed for payment on July 1. *Adjusted for scrip issue. #Already paid. ‡‡At August 31.

COMMENT

Iceland Group



Iceland's re-invention of itself as an ecologically-friendly retailer has paid off handsomely in the wake of the health scare about genetically modified foods. Iceland's GM-free products have lured in new customers. Like-for-like sales are growing at 10 per cent, twice the rate of rivals. So, does it really pay to be green? Perhaps. The initiative has helped traditionally downmarket Iceland redefine itself. Not only is custom up but transaction size is rising too, suggesting it is tapping the yuppie market. Uncharted territory indeed. But rivals are now copying Iceland and there is no guaranteed first mover advantage in being greener than thou. Maybe a name change would help it hang on to its new eco-friendly image. Greenland, perhaps?

Canary Wharf

Canary Wharf stands out from the property pack, both for its risks and its potential rewards. Investors whose appetite has been whetted by the initial public offering prospectus should consider the former. The company's success depends critically on continuing demand for big-floor-space. Consolidation in the financial sector has been great for Canary Wharf. If London loses out to Frankfurt in attracting capital, Canary Wharf could be hit. Second, Canary Wharf needs the completion of the much-dogged Jubilee Line extension. Third, if existing shareholders, locked into 75 per cent of the equity for six months, then sell out quickly, guess who will be left nursing a headache.

Set against that are the positives. First is valuation. It is possible to arrive at 330p-340p per share by assuming the following: let properties valued at an uncontroversial £1.43bn and land to be developed at a conservative "open market" price of just over £620m. This in effect is what the company would get if it put a "for sale" sign up now over the land.

A certain bullishness is needed, however, in valuing the property under construction – £907m in the prospectus. Since much of this space is pre-let or pre-sold, the main risk is one of execution: Canary Wharf must build on time and to budget. Getting to the top valuation also requires throwing something in for developer's profits on the virgin land. Given Canary Wharf's record since its resurrection, this seems fair.

NEWS DIGEST

CHEMICALS

Croda to shut sites in cost-cutting drive

Croda International is planning to close some manufacturing sites and sell stakes in joint ventures and other non-core businesses as part of a drive to cut costs and focus on speciality chemicals.

Barbara Richmond, finance director the chemicals group, said "a number" of smaller sites would be closed and investment concentrated on bigger plants with better infrastructure. The closures are part of efforts to cut costs by an annual £4m ($6.5m) in two years. The group, which has two new plants coming on stream this year, will also benefit from lower cost production following capital expenditure of £31.3m last year.

Analysts welcomed the move but said it was largely defensive given problems caused by the strength of sterling, the Asian crisis and the slowdown in UK manufacturing. These hit 1998 pre-tax profits which, after exceptional charges of £18m (£1.9m), fell to £14m (£39.2m) on sales of £375m (£429m). **Virginia Marsh**

MEDIA

Boosey hits sour note in Asia

Boosey & Hawkes hit a sour note in 1998 as the instrument maker and music publisher struggled with a downturn in south-east Asia and costs associated with establishing its independence. Boosey said the Asian crisis had cost about £2m in lost sales, contributing to a pre-tax loss of £45.1m (£7.11m profit) in the year to December 31. A one-off rationalisation cost and restructuring charges also shaved £2.2m from the outcome. The bulk of the deficit resulted from a £50m write-off of goodwill on Boosey's purchase of 38 per cent of its shares from Carl Fischer, the US music publisher, in May. The shares, which generated £89m in goodwill, were placed with investors.

Richard Holland, chief executive, said demand in Asia had begun to recover, but buoyant sales in the US would drive future growth. "A downturn in the Far East undermined our performance in 1998, but the US has the biggest markets for musical instruments and we are focusing on building our market share there," he said. Turnover grew 4.3 per cent to £98.9m, of which the US contributed 40 per cent. **Dan Bilefsky**

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EURO PRICES

EQUITIES

Investors take profits as Wall St weakens

EUROPEAN OVERVIEW

By Vincent Boland

European stock markets tumbled yesterday under pressure from a weaker Wall Street.

Stocks fell across the range of sectors, with industrials feeling the brunt of the sell-off as investors took more profits after their recent good runs. Those stocks locked in takeovers also fell as investors waited for more developments.

The FTSE Eurotop 300 index of leading European shares fell 22.91 or 1.83 per cent to 1,228.82, while the FTSE Eurotop 100 index fell 56.99 or just under 2 per cent to 2,838.33.

The FTSE Ebloc index of shares in euro-zone companies fell 27.19 or 2.6 per cent to 1,012.75.

With the Dow Jones Industrial Average showing no sign of breaking through 10,000 again soon, there was some talk in the market it could head sharply downwards. Analysts say the US market is particularly vulnerable to a rise in US interest rates.

A rate rise does not look likely in the immediate future, but observers warn that one may be necessary especially if the economy continues to grow at its current hectic pace.

"Under these circumstances the bubble in the US equity market would probably burst, taking Europe down in its wake," said the team at HSBC Economics & Investment Strategy.

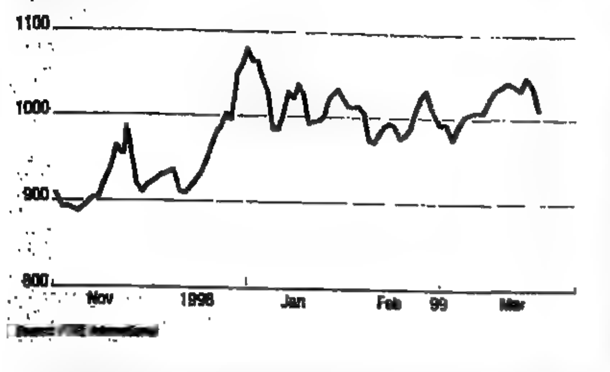
"A prospective correction may, however, be limited if the rate rise is perceived as a one-off measure to reverse the Asian-led rate cuts of the summer rather than the start of a prolonged tightening trend."

Italian banks gave up some of the gains seen in the wake of this week's prospective merger activity in the sector. Banca Commerciale Italiana fell 10 cents to €7.52, San Paolo-IMI 30 cents to €14.65, and UniCredito Italiano 20 cents to €4.85.

Pinault-Printemps-Redoute, which is taking a big stake in Gucci, fell another €3.60 to €140.40 as the prospect rose of a lengthy tussle for control of the fashion house with LVMH, which ended €1.20 higher at €235.20.

Alstom, 90 cents higher at €25.80, was the main beneficiary of reaction to the creation of ABB Alstom Power, a big new joint venture in European power generation with ABB, whose B shares fell 20 cents to €11.49.

FTSE Eurobloc 100



Source: FTSE International

■ THREE MONTH EURIBOR FUTURES (LIFFE) €1m 100 - rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	97.105	97.105	-	97.115	97.090	35009	[illegible]
Sep	97.125	97.125	-0.005	97.130	97.110	27172	170345
Dec	96.880	96.875	-0.015	96.885	96.865	13086	96963
Mar	97.025	97.020	-0.010	97.030	97.010	15534	83477

■ THREE MONTH EURO LIBOR FUTURES (LIFFE) €1m 100 - rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	97.100	97.105	-	97.100	97.095	1152	105490
Sep	97.120	97.125	-0.005	97.125	97.120	861	93016
Dec	96.865	96.875	-0.015	96.870	96.865	1129	83380
Mar	97.010	97.020	-0.010	97.010	97.010	25	84173

■ THREE MONTH EURO LIBOR OPTIONS (LIFFE) €1m 100 - rate

Strike Price	Calls Jun	Calls Sep	Calls Dec	Calls Mar	Puts Jun	Puts Sep	Puts Dec	Puts Mar
97000	0.140	0.200	0.125	0.230	0.035	0.075	0.250	0.210
97125	0.070				0.080			
97250	0.030	0.075	0.080	0.120	0.175	0.200	0.435	0.350
97375	0.015				0.285			

Est. vol. total, Calls 65 Puts 0. Previous day's open int., Calls 163616 Puts 95870

■ FTSE EUROTOP 100 INDEX FUTURES (LIFFE) €20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	2881.0	2840.0	-60.0	2867.0	2840.0	171	5178

■ EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) €10 per index point

	2700 C	2700 P	2750 C	2750 P	2800 C	2800 P	2850 C	2850 P	2900 C	2900 P	2950 C	2950 P	3000 C	3000 P	3050 C	3050 P
Apr	189	31	151	42	116	57	83	78	58	102	39	133	25	170	-	-
May	228	74	193	88	160	106	130	127	104	151	82	179	63	210	64	

Est vol total:774 . Prev day's open interest total: 8,112 Premiums shown are based on settlement prices.

OTHER INDICES

	Mar 23	Mar 22	Mar 19	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	3489.18	3581.42	3583.47	3670.82	2433.07	3670.82	2433.07
DJ Euro Stx 50	3520.84	3607.82	3633.05	3886.38	2419.23	3886.38	2419.23
MSCI Europe	(u)	1202.00	1228.66	1315.85	[illegible]	1315.85	510.70

Source: Financial Times Information. *Subject to revision next day. (u) unavailable.

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

Mar 23

Industrial & Regional Markets	Euro Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Euro) €
FTSE Eurotop 300	1228.82	-1.83	-22.91	2.07	3.92	1269.34
FTSE Eurotop 100	2838.33	-1.97	[illegible]	2.06	10.04	1021.08
FTSE Eurobloc 100	1012.75	-2.61	-27.19	1.98	[illegible]	1029.04
FTSE EuroMid	1227.25	-0.65	[illegible]	[illegible]	4.35	1278.25
FTSE EuroMid Eurobloc	1185.38	-0.63	-7.51	2.54	[illegible]	1212.63
FTSE EuroMid Ex UK	1246.00	-0.80	-10.10	2.37	1.80	1270.93
FTSE Eurotop 300 Regions						
Eurobloc	1254.40	-2.50	-32.45	1.91	1.47	1282.97
UK	1190.64	[illegible]	-13.16	2.58	[illegible]	1259.57
Europe Ex-Eurobloc	1203.47	-1.13	-13.77	2.24	6.36	1253.13
Europe Ex-UK	1251.10	[illegible]	-28.58	1.89	1.14	1275.87
FTSE Eurotop Industry Sectors						
RESOURCES	992.06	-1.47	-14.84	2.97	3.69	1041.85
Mining	935.38	+2.03	+18.60	3.83	21.37	978.63
Oil & Gas	957.06	-1.61	-15.67	2.93	2.82	983.62
BASIC INDUSTRIES	1080.34	-2.62	-29.04	2.65	2.55	1105.89
Chemicals	822.20	-2.76	-23.37	2.62	2.47	839.25
[illegible]	981.47	-3.14	-31.81	2.25	1.13	991.20
Forestry & Paper	996.92	-0.01	-0.14	3.85	0.00	1042.50
GENERAL INDUSTRIALS	1129.73	-2.16	-24.96	2.40	3.28	1157.19
Aerospace & Defence	742.22	-0.90	-6.77	2.43	2.89	755.13
Diversified Industrials	959.78	-3.74	-37.31	2.18	0.00	981.74
Electronic & Elect Equip	1058.08	-1.08	-11.60	1.82	5.15	1069.35
Engineering & Machinery	1015.57	-1.37	-14.09	4.50	4.16	1033.87
CYCLICAL CONS GOODS	1252.15	-2.47	-31.78	2.37	0.69	1287.21
Automobiles	987.12	-2.85	-27.89	2.45	0.63	916.05
Household Goods & Texts	1384.06	-0.27	-3.79	2.06	0.09	1395.88
NON-CYC CONS GOODS	1190.50	-1.48	-17.89	1.95	3.85	1227.11
Beverages	933.43	-0.34	-3.15	2.46	10.32	984.23
Food Producers & Process	891.71	-2.10	-19.14	1.72	1.41	903.56
Health	1006.48	-0.70	-7.09	1.07	0.00	1023.57
Packaging	794.90	-2.01	-16.27	1.14	0.00	785.89
Personal Care & Hsd Prods	1069.22	-2.26	-24.67	0.94	1.94	1080.26
Pharmaceuticals	1085.96	-1.42	-15.65	1.29	3.25	1095.06
Tobacco	1345.97	+0.12	+1.59	3.74	7.11	1378.67
CYCLICAL SERVICES	1293.20	-1.88	-24.84	2.10	3.83	1334.73
Distributors	666.25	+0.85	+5.63	1.41	0.00	673.74
General Retailers	1066.21	-1.27	-13.73	2.30	1.27	1089.92
Leisure Entertmt & Hotels	957.77	-3.64	-36.19	2.10	8.72	980.21
Media & Photography	1182.84	-2.98	-36.34	1.80	6.39	1201.69
[illegible]	866.11	-1.17	-10.24	3.34	3.71	865.49
Support Services	1041.98	-2.20	-23.47	1.13	1.18	1054.08
Transport	971.28	+0.36	+3.44	2.76	1.81	991.06
NON-CYCLICAL SERVS	1310.56	-1.64	-21.82	1.37	0.48	1349.40
Food & Drug Retailers	1020.21	-0.69	-7.13	2.12	0.51	1036.30
Telecommunications Servs	1295.07	-1.63	-24.17	1.24	0.43	1314.80
UTILITIES	1380.89	-1.69	-23.75	3.19	5.17	1409.65
Electricity	1047.23	-1.77	-18.85	3.37	4.44	1085.03
Gas Distribution	1155.42	-1.73	-20.37	1.70	1.00	1273.29
Water	901.32	-0.94	-8.51	5.90	5.94	949.82
FINANCIALS	1322.08	-1.97	-26.66	2.21	6.10	1364.59
Banks	944.55	-1.86	-17.86	2.80	6.00	954.35
Insurance	982.37	-2.57	-25.89	1.40	1.78	986.01
Life Assurance	1096.96	-1.35	-15.01	1.84	4.56	1115.69
Investment Companies	996.38	+0.06	+0.61	1.29	0.00	1022.33
Real Estate	725.30	+1.02	+7.36	3.47	1.67	745.92
Specialty & Other Fin	1002.35	-1.85	-18.90	2.25	0.79	1019.87
INFORMATION TECH	905.68	-1.48	-13.61	0.92	2.85	910.43
Information Tech Hardware	1001.78	-0.97	-9.78	1.02	3.71	1007.84
Software & Computer Serv	683.37	-3.21	-22.66	0.59	0.15	685.12

FTSE EUROTOP 300

Name	Price (Euro)	Chge + or -	Mkt cap Euro(bn)	Vol (m)	Yld
AEROSPACE & DEFENCE					
Brit Aero	5.86	-	10.4	7.9	1.8
Rolls R	3.85	-	5.8	4.4	2.8
DIVERSIFIED INDUSTRIALS					
Investor A	37.14	-4	2.9	0.1	3.3
Investor B	37.82	-4	4.9	0.4	3.3
HOUSEHOLD & TEXTILES					
Adidas Salom	78.00	-2.0	3.6	-	1.1
Christian D	115.70	+4	5.2	0.1	2.2
Electrolux B	17.42	-2	6.2	0.8	1.9
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Remaining sections of the FTSE Eurotop 300 list (Automobiles, Banks, Beverages, Chemicals, Construction & Building, Distributors, Electricity, Electronic & Electrical Equipment, Engineering & Machinery, Food & Drug Retailers, Food Producers & Processors, Forestry & Paper, Gas Distribution, General Retailers, Health, Household & Textiles, Insurance, IT Hardware, Investment Companies, Leisure Entertainment & Hotels, Life Assurance, Media & Photography, Mining, Oil & Gas, Packaging, Personal & Household Products, Pharmaceuticals, Real Estate, Software & Computer Services, Speciality & Other Finance, Support Services, Telecommunication Services, Tobacco, Transport, Water): [illegible]

CURRENCIES & MONEY

EURO SPOT FORWARD AGAINST THE EURO

Mar 23		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA
[illegible]												
South Africa	(R)	6.7943	[illegible]	815 - 071	6.8071	6.7473	6.8657	-12.6	6.9899	-11.5	7.5080	-10.5
South Korea	(Won)	1335.16	+1.8100	343 - 689	1337.76	1333.43	-	-	-	-	-	-
Taiwan	(T$)	36.0963	-0.0031	591 - 334	36.1460	35.9780	36.2935	[illegible]	36.5976	-5.6	37.7240	-4.5
Thailand	(Bt)	40.8365	-0.0936	[illegible] - 700	40.9745	40.7213	40.9434	-3.1	41.2572	-4.1	42.9150	-5.1
UAE	(Dirham)	4.0024	-0.0027	011 - 037	4.0550	3.9750	4.0098	-2.2	4.0250	-2.3	4.1048	-2.6

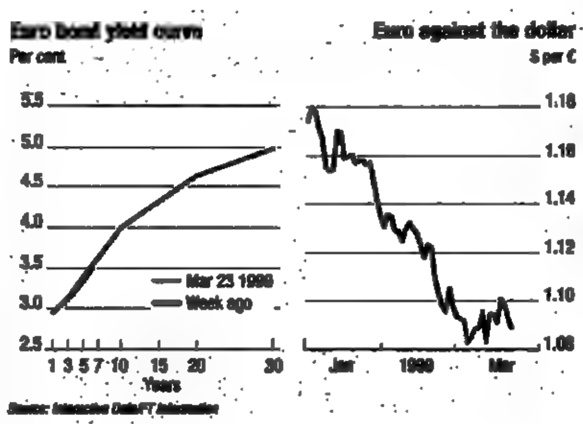
Euro Locking Rates: Austrian Schilling 13.7603, Belgium/Luxembourg Franc 40.3399, Finnish Markka 5.94573, French Franc 6.55957, German Mark 1.95583, Irish Punt 0.787564, Italian Lira 1936.27, Netherlands Guilder 2.20371, Portuguese Escudo 200.482, Spanish Peseta 166.386. Bid/offer spreads in the Euro Spot table show only the last three decimal places. Bid, offer, mid spot rates and forward rates are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the FT.

BONDS

INTEREST RATE SWAPS

Mar 23	Euro-€ Bid	Euro-€ Ask	£ Stlg Bid	£ Stlg Ask	SwFr Bid	SwFr Ask	US $ Bid	US $ Ask	Yen Bid	Yen Ask
1 year	3.05	3.08	5.19	5.22	1.44	1.48	5.27	5.30	0.22	0.25
2 year	3.13	3.17	5.20	5.23	1.73	1.81	5.46	5.49	0.35	0.38
3 year	3.27	3.31	5.26	5.30	1.97	2.05	5.58	5.61	0.58	0.61
4 year	3.45	3.49	5.27	5.31	2.18	2.26	5.65	5.68	0.83	0.86
5 year	3.62	3.66	5.28	5.32	2.37	2.45	5.71	5.74	1.09	1.12
6 year	3.80	3.84	5.26	5.30	2.56	2.64	5.78	5.81	1.36	1.39
7 year	3.97	4.01	5.26	5.30	2.73	2.81	5.83	5.86	1.58	1.61
8 year	4.12	4.16	[illegible]	[illegible]	2.90	2.98	5.88	5.91	1.79	1.81
9 year	4.25	4.29	5.27	5.31	3.06	3.14	5.92	5.95	1.94	1.97
10 year	4.34	4.38	5.28	5.32	3.20	3.28	5.96	5.99	2.07	2.10
12 year	4.49	4.53	5.29	5.34	3.43	3.53	6.03	6.06	2.29	2.32
15 year	4.69	4.73	5.29	5.34	3.69	3.79	6.11	6.14	2.54	2.59
20 year	4.91	4.95	5.29	5.34	3.94	4.04	6.21	6.24	2.74	2.79
25 year	5.05	5.09	5.27	5.34	4.05	4.15	6.21	6.24	2.80	2.85
30 year	5.10	5.14	5.27	5.34	4.14	4.24	6.21	6.24	2.85	2.91

Bid and ask rates as of close of London business. US $ is quoted annual money actual/360 basis against 3 months Libor, £ and Yen quoted on a semi-annual actual/365 basis against 6 months Libor. Euro/Swiss Franc quoted on annual bond 30/360 basis against 6 month Euribor/Libor with the exception of the 1 year rate which is quoted against 3 month Euribor/Libor. Source: Intercapital Europe Limited.



Source: Interactive Data/FT Information

EURO-ZONE BONDS

Mar 23	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
■ SOVEREIGNS								
[illegible]	01/01	4.250	AAA	101.918	3.18	+0.03	+0.05	+0.13
Denmark	01/02	4.750	AA+	103.845	3.28	+0.03	+0.05	+0.15
[illegible]	02/01	6.000	AA+	103.242	3.18	+0.03	+0.05	+0.15
Greece	11/08	5.750	BBB	114.343	4.48	+0.02	+0.08	+0.82
■ SUPRANATIONALS								
ADB	10/07	5.500	AAA	108.099	4.34	-0.05	+0.02	+0.55
EIB	04/08	5.000	AAA	105.800	4.22	+0.09	+0.18	+0.31
Eurofima	12/09	5.625	AAA	108.119	4.53	-0.03	+0.06	+0.51
World Bank	04/05	7.125	AAA	117.338	3.85	+0.04	+0.08	+0.32
■ UTILITIES								
EDF	10/03	3.750	n/a	101.321	3.43	+0.01	-0.01	+0.17
TEPCO	02/03	4.750	AA	103.648	3.73	+0.03	-0.04	+0.47
Quebec Hydro	03/08	5.375	A+	104.814	4.71	+0.04	+0.10	+0.80
Norsk Hydro	10/99	7.250	A	[illegible]	3.61	+0.03	+0.08	+0.56
■ FINANCIALS								
Bad Wurtt	02/10	5.375	AAA	107.391	4.30	+0.03	+0.10	+0.42
[illegible]	09/07	5.750	AAA	110.713	4.21	+0.01	+0.09	+0.42
Credit Local	04/08	5.250	AA+	[illegible]	4.46	+0.03	+0.10	+0.55
Abbey Natl	01/09	5.000	AA-	101.362	4.82	+0.03	+0.12	+0.80
■ INDUSTRIALS								
Unilever	10/01	5.125	AAA	104.285	3.33	+0.02	-0.05	+0.30
McDonalds	03/08	5.125	AA	101.930	4.45	+0.03	+0.10	+0.54
Philip Morris	08/08	[illegible]	A	104.375	5.02	+0.03	+0.17	+1.11
[illegible]	07/05	5.375	A-	102.703	4.91	+0.02	+0.07	+1.25
■ PFANDBRIEFE								
Rhein Hypo	12/01	5.500	n/a	105.609	3.27	+0.02	+0.00	+0.24
Eurohypo AG	01/04	5.000	n/a	106.069	3.60	+0.02	+0.01	+0.20
Bayer Vereins	01/06	6.000	n/a	111.916	3.97	+0.02	+0.07	+0.31
Depfa	07/08	4.750	n/a	103.290	4.31	+0.03	+0.10	+0.40
■ HIGH YIELD								
Sabenl	04/07	10.125	B+	114.750	6.27	+0.00	-2.18	+2.48
Colt Telecom	11/07	8.875	n/a	107.712	7.64	+0.03	-0.25	+3.86
Impress Metal	05/07	9.870	B	111.000	7.33	+0.00	-1.97	+3.54
Remy Cointreau	07/05	10.000	B+	98.422	10.12	+0.05	-0.09	+6.59

Standard & Poor's ratings. Source: Interactive Data/FT Information.

European prices close mostly lower

BENCHMARK BONDS

By Bertrand Benoit in London and John Labate in New York

Government bonds moved within a narrow range yesterday, with prices closing mostly lower as worries about inflation affected sentiment in Europe.

The 10-year UK gilt future recovered from intra-day lows to settle down just 0.25 points at 116.55 on Liffe, despite a reported fall in inflation.

The UK Office of National Statistics published its February RPIX measure of inflation, which excludes mortgage interest repayments, showing a 0.2 percentage points fall year-on-year.

Headline retail price inflation was 2.1 per cent against 2.4 per cent a year ago, increasing prospects of an interest rate cut when the Monetary Policy Committee of the Bank of England meets in two weeks time.

However, the news was offset by reports that Opec ministers meeting in Vienna yesterday agreed to a cut in world output.

"The gilts market is not taking much notice of the fall in retail prices because investors are expecting the next batch of inflation figures to show a rise as the impact of the budget and higher oil prices starts filtering through," said Jeremy Hawkins at Bank of America.

There were also worries about inflation in the euro-zone. The benchmark 10-year German bund future fell 0.37 points lower to 113.91.

Consumer price date for Bavaria showed a 0.5 per cent rise year-on-year, following a 0.2 per cent increase in February. The figure, boosted by a jump in energy prices, was at the higher end of expectations.

A rise in February EU harmonised consumer prices, due to be announced tomorrow, could depress bond prices further by denting expectations that the European Central Bank could cut rates when its board next meets on March 8.

"With the euro now trading below the $1.10 mark, there is little chance of the ECB cutting rates anyway," said Danyelle Guyatt at Deutsche Bank. "Our calculations shows that the depreciation of the euro has had the same effect on the European economy as a 25 basis point cut in rates."

The spread on the euro swap curve widened by 0.5 basis points across most maturities due to a rebound in activity in the five-year and 10-year maturities.

US Treasuries gained ground after a sell-off on the stock market in early trading. The fall in equities gave a boost to bonds that offset the impact of the largest corporate debt issue ever.

Attention has focused on a raft of issuance this week after telecoms giant AT&T raised the size of its bond offering from $7bn to $8bn. Fears of oversupply were fanned by reports that total corporate issuance would reach $10bn this week.

"The market is also preparing to absorb $15bn worth of Treasuries to be issued on Wednesday, but that has partly been offset by the low level of government issuance expected for this year," Mrs Guyatt said.

By early afternoon the 30-year benchmark bond was ⅛ higher at 95 13/32, sending the yield down to 5.562 per cent. The 10-year note rose ⅛ to 96 25/32, yielding 5.186 per cent, while the two-year note gained 3/32 to 99 31/32, yielding 5.015 per cent.

Moody's changes Vietnam outlook

Moody's Investors Service, the international credit rating agency, has changed its outlook for Vietnam's B1 foreign currency country rating ceiling for bonds and notes to negative, reports Reuters from Sydney.

The agency said downward pressure on the rating came from lack of progress in advancing structural reforms in the financial sector, in state enterprises, and in the external trade regime, which have become obstacles to renewed support from the IMF. The outlook for Vietnam's B3 foreign currency ceiling for bank deposits remains stable.

Financial turmoil and retrenchment in regional economies have put pressure on the country's exports and constrained external financing inflows, both of which are crucial for supporting economic performance and the external payments position, said Moody's. Moreover, considerable uncertainty persists from the lack of transparency in the reporting of official foreign exchange reserves.

Meanwhile, nine Vietnamese companies and banks have qualified for listing on a future stock market, an agency overseeing the privatisation of state firms said. The Steering Committee for State Enterprise Reform said it had surveyed potential candidates for Vietnam's pilot Stock Trading Centre to open in Ho Chi Minh City this year. Most economists, however, expect it would not operate before 2000.

A fully-fledged stock market is not expected for several more years. Of 151 state companies that have been partially or fully privatised to date, only four met listing requirements.

US approves LCH swaps clearing plan

By Nikki Tait in Chicago

US regulators yesterday gave a green light to the London Clearing House, the UK central clearing house for a number of UK-based exchanges, to launch the world's first swaps clearing operation this summer.

The approval, which essentially involves granting regulatory exemption to the LCH's SwapClear system, allows LCH to market it to US banks and institutions. It is a final order, coming into effect immediately without a comment period attached.

Swaps are one-to-one risk management agreements, usually negotiated between sophisticated financial market participants, such as large investment banks.

LCH first detailed plans for the SwapClear programme last year. Its scheme follows huge growth in the over-the-counter derivatives industry in the past decade, coupled with the growing standardisation of many swap agreements. SwapClear will initially handle interest rate swaps of up to 10-year maturity for the banks that deal in them, and has no intention of taking on "exotic" swaps.

But the LCH's desire to market SwapClear to US banks and institutions meant it became caught up in a Washington turf-war over regulation of the US-based derivatives industry, and the over-the-counter market, in particular.

The LCH asked the Commodity Futures Exchange Commission, the US futures industry regulator, for exemption from the US Commodity Exchange Act, the main legislation covering derivatives. But some participants in the swaps industry, who dispute that the CFTC has jurisdiction over the over-the-counter market, maintained that even granting an exemption would mean the agency was going beyond its mandated powers.

But yesterday Arthur Hahn, legal adviser to the LCH, said the order "moved the clearing of swaps into the 'safe harbour' without the CFTC trying to expand jurisdiction over swaps".

Now the exemption has been granted, the LCH hopes to launch SwapClear by August. It is testing systems with three banks in London, and will roll out the system over the next five months. It says it has 11 entities "advising" on the system, including two US banks. These organisations, which would be likely market participants after the launch of SwapClear, account for about 30 per cent of swaps turnover globally, it calculates.

Some US swaps traders have questioned how much business SwapClear will attract. But Phil Bruce, LCH's managing director of strategic planning, said last week that the organisation was "confident that we will have enough participants on day one".

SwapClear is one of a handful of new international initiatives from the LCH. It also intends to launch a clearing facility for the European "repos" market this summer. Repos are agreements under which one financial institution lends a security to another for cash, agreeing to buy it back at a later date.

AT&T raises deal to $8bn

NEW ISSUES

By Arkady Ostrovsky

AT&T, the US telecommunications company, increased its record-breaking offering to $8bn yesterday, making it by far the largest corporate bond issue in history.

The offering was increased from a planned $7bn as a result of high demand. An official at Salomon Smith Barney, which lead-managed the bond jointly with Merrill Lynch, said the order book was oversubscribed.

The issue, which is divided into three tranches of $2bn of five-year bonds, $3bn of 10-year bonds, and $3bn of 30-year bonds, was priced at 64, 84 and 94 basis points over the relevant US Treasuries respectively.

The proceeds from the offering will be used to refinance short-term debt issued by AT&T in its $55bn takeover of Tele-Communications Inc last year.

The issue dwarfed offerings denominated in euros. Argentaria, Spain's largest provider of mortgages, issued a €1bn securitised bond modelled on German Pfandbriefe. The 10-year bonds are backed by mortgage certificates known as "cedulas hipotecarias".

The issue, which was lead-managed by Goldman Sachs and Argentaria, is the first international Pfandbrief-type issue from a non-German institution. Rob Jolliffe at Goldman Sachs said 80 per cent of the issue was sold outside Spain. A large number of buyers were German, who are accustomed to this kind of bond.

The issue was priced to yield 40 basis points over the German 10-year bond and about 4 basis points over the euro swap curve. It was trading at par after launch and about 7.5 basis points over the Pfandbrief benchmark issued by DePfa, the largest German Pfandbrief issuer.

Argentina also launched a 10-year bond of €250m. The issue, priced at 575 basis points over the relevant German bund, has a step-down coupon. It follows Argentina's €350m bond issued in February, which is now trading 2 points above par and at 568 basis points over the German bund. It was originally launched at 655 basis points over the bund.

An official at Morgan Stanley Dean Witter, the lead manager of the issue, said the original intention was to increase the February issue. However, investors were uncomfortable with Argentina's paper trading above par, and the banks decided to issue a new bond with a reoffering price just below par with a coupon 1 per cent lower than the previous issue.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
AT&T	2bn	5.625#	99.936R	Mar 2004	0.35R	+64(4¾%Feb04)	Merrill Lynch/SSB
AT&T	3bn	6.00#	99.765R	Mar 2009	0.45R	+84(4¾%Nov08)	Merrill Lynch/SSB
AT&T	3bn	6.50#	99.532R	Mar 2029	0.875R	+94(5¼%Nov28)	Merrill Lynch/SSB
US Bank Nat Assoc†	400	(b)	99.823R	Apr 2004	0.175R	-	Merrill Lynch
LB Rheinland-Pfalz†	250	(c)	100.05R	Apr 2000	0.05R	-	Paribas
CHELT Class A1(d,s,m)	126	6.02	99.9921	Jan 2014	0.14	-	Bear Stearns
CHELT Class A2(d,s,m)	76	6.07	99.99485	Jul 2014	0.175	-	Bear Stearns
EUROS(e)							
Argentaria	1bn	4.375	99.769R	Mar 2009	0.20R	+40(4%Jan09)	Goldman S/Argentaria
Hypothekenbank in Essen(g)	1bn	3.500	100.38R	Jan 2000	0.47R	-	(h)
Investor AB	400	4.250	99.16R	Apr 2006	0.35R	[illegible]	JP Morgan
Republic of Argentina	250	(j,l)	99.88	Feb 2009	2.00	+575(Jan 09)	Morgan Stanley
Heidelberger Zement Fin	300	4.750	98.875R	Apr 2009	0.40R	+80(4%Jan09)	Deutsche Bank/DKB
National Bank of Canada†	250	(n)	99.981R	Apr 2002	0.125R	-	Deutsche Bank
La Defense Class A†(k)	87	(k1)	100.00	Oct 2010	0.30	-	CSFB
LB Rheinland-Pfalz	250	(p)	100.05R	Apr 2000	0.05R	-	Paribas
STERLING							
RMAC Class A†	86.5	(q)	99.90937	Dec 2035	0.225	-	Deutsche Bank
Abbey National Treasury	50	6.250	99.90	Jan 2004	0.275	-	Deutsche Bank
GREEK DRACHMA							
DePfa Bank	10bn	6.25	99.92R	Apr 2002	0.200R	-	TD Securities

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. b) 3-mth Libor plus 15bp. c) 3-mth Libor minus 5bp. d) 10% clean-up call. e) Spread relates to German govt bonds unless stated. g) Fungible with €511m. Plus 51 days accrued interest. h) Commerzbank/ABN Amro/Dresdner Bank/Lehman Bros/HSBC Trinkhaus. i) Over interpolated yield. j) 14% in yrs 1&2, 8% thereafter. k) Also issued: Class B1 €17m, Class C1 €17m. k1) 3-mth Euribor plus 35bp. Callable from April 01 at par. l) Long 1st coupon. m) Monthly n) 3-mth Euribor plus 10bp. p) 3-mth Euribor minus 5bp. q) 3-mth Libor plus 28bp until June 06, 3-mth Libor plus 60bp thereafter. 10% clean-up call. s) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Mar 23	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	106.4248	4.96	+0.02	+0.09	+0.05	-0.05
	08/08	6.750	123.4168	5.52	+0.03	+0.13	+0.17	-0.25
Austria	03/01	5.250	104.1100	3.06	-0.04	-0.03	-0.02	-1.06
	01/08	5.000	106.2400	4.14	+0.02	+0.04	+0.12	-0.81
Belgium	03/01	5.000	103.6300	3.10	+0.02	+0.01	+0.03	-0.97
	03/09	3.750	95.3200	4.26	+0.06	+0.03	+0.16	-0.69
Canada	12/00	5.000	99.9300	5.04	-0.06	-	+0.01	+0.14
	06/08	6.000	105.7500	5.20	-0.05	+0.04	+0.07	-0.13
Denmark	11/00	9.000	108.7200	3.37	+0.02	+0.01	-0.06	-0.90
	11/09	6.000	113.3300	4.40	+0.04	+0.05	+0.14	-0.74
Finland	06/00	4.000	101.1610	3.01	+0.01	+0.02	+0.04	-0.70
	04/09	5.000	106.2910	4.22	+0.03	-	+0.12	-0.66
France	07/00	4.000	101.2400	2.99	-0.03	-0.01	+0.02	-1.04
	04/03	7.250	121.8000	3.89	+0.03	+0.02	+0.07	-0.94
	04/09	4.000	99.0200	4.12	+0.04	+0.04	+0.16	-0.78
	04/29	5.500	107.3300	5.02	+0.03	+0.03	+0.19	-0.42
Germany	05/01	5.000	104.0300	3.02	+0.01	-	+0.04	-0.87
	01/05	6.000	112.8700	3.80	+0.02	+0.03	+0.08	-0.89
	01/09	3.750	98.0200	4.00	+0.03	+0.02	+0.11	-0.87
	07/28	4.750	96.7200	4.98	+0.01	-0.01	+0.14	-0.47
Greece	03/00	9.800	100.9000	8.78	-0.10	-0.37	-0.69	-0.98
	01/08	8.300	102.9500	5.89	+0.06	-	-0.13	-2.34
Ireland	10/01	6.500	108.1000	3.16	+0.07	-0.01	+0.01	-1.33
	08/08	6.000	114.2000	4.14	+0.01	-0.02	+0.08	-0.80
Italy	07/01	4.500	102.9300	3.14	+0.02	-	+0.01	-1.28
	07/03	4.500	104.1300	3.46	+0.02	-0.03	+0.01	-1.23
	05/09	4.500	102.4600	4.20	+0.03	-	+0.12	-0.89
	11/27	6.500	119.7300	5.17	+0.02	-0.01	+0.16	-0.44
Japan	12/00	6.900	111.5080	0.21	+0.02	-0.07	-0.06	-0.35
	12/03	4.100	114.9160	0.87	-	-0.12	-0.12	-0.27
	06/08	1.800	100.8610	1.70	+0.02	-0.09	-0.03	+0.14
	09/18	2.300	95.9340	2.57	+0.01	-0.13	-0.08	+0.20
Netherlands	01/01	9.000	110.2800	3.02	-0.01	-	+0.01	-1.00
	07/08	3.750	96.8700	4.13	+0.03	+0.02	+0.15	-0.72
New Zealand	02/01	8.000	105.3893	4.92	+0.02	+0.07	+0.01	-2.87
	07/09	7.000	108.5554	5.88	+0.05	+0.06	+0.39	-1.16
Norway	05/01	7.000	104.1000	4.95	+0.06	+0.04	+0.10	+0.71
	05/09	5.500	104.4000	4.94	+0.04	+0.07	+0.19	-0.24
Portugal	03/00	5.375	102.2700	2.99	+0.07	+0.04	+0.07	-1.03
	06/08	5.375	108.8500	4.30	-	+0.01	+0.13	-0.82
Spain	01/01	5.000	103.5700	2.97	-	+0.02	-	-1.14
	07/09	5.150	105.7000	4.45	+0.02	-	+0.10	-0.58
Sweden	05/00	10.250	107.4585	3.21	+0.02	-0.11	-0.02	-1.51
	05/08	6.500	115.3900	4.41	+0.07	+0.02	+0.22	-0.89
Switzerland	06/00	4.500	103.5800	1.46	+0.01	+0.03	+0.10	-0.22
	01/08	4.250	115.9000	2.23	+0.04	+0.04	-0.01	-0.58
UK	11/01	7.000	105.4300	4.77	-0.02	-0.07	+0.06	-1.91
	12/03	6.500	107.9500	4.60	+0.02	-0.04	+0.13	-1.46
	12/09	5.750	110.5100	4.50	+0.02	+0.02	+0.16	-1.42
	12/28	6.000	124.8000	4.48	+0.01	-0.01	+0.12	-1.37
US	01/01	4.500	99.0926	5.02	-0.03	+0.04	+0.11	-0.52
	02/04	4.750	98.5236	5.09	-0.01	+0.06	+0.14	-0.52
	11/08	4.750	96.7298	5.18	-0.02	+0.07	+0.16	-0.48
	02/29	5.250	95.4449	5.56	-0.01	+0.09	+0.21	-0.34

London closing * New York closing. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Mar 23	Bid Yield	Spread vs Euros	Spread vs T-Bonds
Australia	5.53	+1.51	+0.34
Austria	4.30	+0.28	-0.89
Belgium	4.24	+0.22	-0.95
Canada	5.20	+1.18	+0.01
Denmark	4.38	+0.36	-0.81
Finland	4.22	+0.20	-0.97
France	4.09	+0.07	-1.10
Germany	4.02	-	-1.17
Greece	5.90	+1.88	+0.71
Ireland	4.19	+0.17	-1.00
Italy	4.23	+0.21	-0.96
Japan	1.75	-2.27	-3.44
Netherlands	4.15	+0.13	-1.04
New Zealand	5.88	+1.86	+0.69
Norway	4.94	+0.92	-0.25
Portugal	4.28	+0.26	-0.91
Spain	4.32	+0.30	-0.87
Sweden	4.44	+0.42	-0.75
Switzerland	2.44	-1.58	-2.75
UK	4.59	+0.57	-0.60
US	5.19	+1.17	-

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis

EMERGING MARKET BONDS

Mar 23	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB-	95.2221	8.89	+0.06	-0.32	+3.83
Poland	07/04	7.125	BBB-	103.5141	6.31	-0.01	+0.50	+1.22
Russia	06/07	10.000	n/a	28.2000	40.46	+0.76	+2.77	+35.31
LATIN AMERICA								
Argentina	09/27	9.750	BB	84.7500	11.58	+0.03	-0.30	+6.05
Brazil	05/27	10.125	B+	69.0000	14.79	+0.13	-0.14	+9.26
Mexico	05/26	11.500	BB	111.6000	10.23	+0.02	-0.65	+4.72
ASIA								
China	07/06	7.750	BBB+	101.7500	7.42	-0.09	-0.14	+2.29
Philippines	10/16	8.750	BB+	94.9523	9.34	+0.03	-0.35	+4.02
Thailand	04/07	7.750	BBB-	102.1800	7.41	-0.05	-0.48	+2.26
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	101.2230	8.06	+0.06	+0.76	+3.04
South Africa	10/06	8.375	BB+	97.2526	8.88	+0.06	-0.38	+3.75
Turkey	09/07	10.000	B	91.8000	11.54	-0.10	-0.54	+6.39
BRADY BONDS								
Argentina	03/23	5.750	BB	69.7500	9.13	+0.09	-0.08	+3.67
Brazil	04/14	5.000	B+	60.3750	13.88	+0.20	-0.32	+8.60
Mexico	12/19	6.250	BB	78.6250	8.45	+0.03	-0.36	+3.07
Venezuela	03/20	6.750	B+	65.2500	11.03	+0.21	+0.05	+5.63

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT information.

BOND FUTURES AND OPTIONS

France

NOTIONAL EURO BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	95.10	94.88	-0.23	95.10	94.68	24,612	74,698

LONG TERM EURO BOND OPTIONS (MATIF)

Strike Price	Calls Apr	Calls May	Calls Jun	Puts Apr	Puts May	Puts Jun
97	-	-	0.26	-	-	-
98	-	-	0.13	3.48	3.49	-
99	-	-	0.08	4.45	4.45	-
100	-	-	0.03	5.48	5.45	-

Est. vol. total, Calls n/a Puts n/a. Previous day's open int., Calls n/a Puts n/a.

Germany

NOTIONAL EURO BUND FUTURES (EUREX) €100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	114.12	113.90	-0.37	114.13	113.75	580,210	509,859
Sep	114.06	114.04	-0.40	114.05	113.98	792	2,767

NOTIONAL EURO BUND (BOBL) FUTURES (EUREX) €100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	108.84	108.73	-0.15	108.85	108.58	189,582	211,868

NOTIONAL EFB SWAP FUTURES (LIFFE)* 5yr 4.0% DM250,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		101.22	-0.17			0	84

NOTIONAL EFB SWAP FUTURES (LIFFE)* 10yr 4.5% DM250,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		100.61	+0.17			0	367

Also traded on APT. All Open interest figs. are for previous day

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	113.40	113.23	-0.20	113.43	113.05	7553	34679

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	97.86	97.73	-0.14	97.87	97.55	15,721	15,913

UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar		108.71	+0.11			0	63
Jun		108.23	-0.08			0	0

NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	116.45	116.55	-0.25	116.54	116.45	184	5567
Jun	117.30	117.15	-0.23	117.31	116.88	24393	77589

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

Strike Price	Calls Jun	Calls Sep	Puts Jun	Puts Sep
11650	1.64	2.40	0.99	1.75
11700	1.35	2.13	1.20	1.98
11750	1.10	1.90	1.45	2.25
11800	0.87	1.68	1.72	2.53
11850	0.67	1.47	2.02	2.82
11900	0.52	1.29	2.37	3.14

Est. vol. total, Calls 367 Puts 4671. Previous day's open int., Calls 16504 Puts 12079

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	120-26	120-29	-	121-07	120-22	233,304	612,413
Sep	120-13	120-16	+0-01	120-24	120-10	1,638	21,681
Dec	130-30					67	1,407

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	131.65	131.69		131.67	131.55	361	na
Sep		130.64				0	na

Euro

€ BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	107.09	107.00	-0.26	107.05	107.05	1	20

US CORPORATE BONDS

Mar 22	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA-	104.3482	5.78	+0.03	+0.25	+5.78
NY Tel	06/26	7.00	A+	98.7572	7.10	+0.03	+0.12	+1.54
CWE	05/08	8.00	BBB	112.1438	6.23	+0.03	+0.15	+1.03
FINANCIALS								
GECC	05/07	8.75	AAA	117.7346	5.98	+0.03	+0.07	+0.78
Banc One	08/02	7.25	A	104.0218	5.83	+0.04	+0.15	+5.88
CNA Fin	01/18	6.95	A-	93.8619	7.56	+0.04	+0.47	-2.00
INDUSTRIALS								
WMX Tech	04/98	6.25	BBB+	100.0089	5.46	+0.03	-0.43	+1.04
Wal Mart	05/02	6.75	AA	103.6087	5.49	+0.04	+0.30	+5.48
Dayton Hud	06/21	9.70	A-	131.8933	6.87	+0.03	+0.24	+1.31
AGENCIES								
FHLMC	04/07	7.14	N/A	108.6903	5.74	+0.03	+0.12	+0.54
SLMA	03/00	7.50	N/A	102.1790	5.13	-0.02	+0.01	-0.63
FNMA	02/16	8.95	N/A	131.3541	6.12	+0.04	+0.17	+0.58
FFCB	06/06	8.95	N/A	118.7686	5.72	+0.04	+0.16	+0.52
HIGH YIELD								
Stone Cont	02/01	9.88	B	100.7500	0.00	-	-	-
AK Stl	12/01	9.13	BB-	105.6250	0.00	-	-	-
Pacalta	06/04	10.75	B-	84.0000	0.00	-	-	-

NY latest. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	7¾	One month	-	Two year	5.03
Broker loan rate	6½	Two month	-	Three year	5.06
Fed.funds	4¾	Three month	4.51	Five year	5.10
Fed.funds at intervention	-	Six month	4.55	10-year	5.20
		One year	4.72	30-year	5.57

INTERNATIONAL BONDS

Mar 23	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
$								
EIB	04/07	7.250	AAA	108.6029	5.87	+0.02	+0.14	+0.72
ABN Amro	08/07	7.125	AA-	104.2324	6.44	+0.05	+0.10	+1.29
Quebec	01/07	7.000	A+	105.7254	6.07	+0.03	-0.04	+0.98
Citicorp FRN	02/04	5.088	AA-	98.2057	5.28	-0.05	-0.35	+0.18
C$								
Bayer L-Bk	06/04	9.500	AAA	117.4280	5.64	-0.06	+0.01	+0.30
Toronto (M ct)	05/04	8.500	AA+	112.5783	5.62	-0.04	+0.06	+0.18
Bell Canada	07/99	10.625	A+	101.4147	5.47	-0.07	+0.02	+1.27
Deutsche B FRN	03/02	5.075	AA+	100.0643	5.06	-0.06	+0.01	+0.31
£								
EIB	12/07	7.625	AAA	118.2800	5.24	+0.04	+0.18	+0.55
Dresdner Bk	12/07	7.750	AA-	111.7622	5.97	+0.03	+0.06	+1.29
British Gas	03/00	7.625	A+	102.0500	5.48	-0.06	-0.06	+0.07
Abbey Nat FRN	02/02	5.567	AA	100.0388	4.87	-	+0.01	+0.17
SFR								
EIB	01/08	3.750	AAA	104.0762	3.21	+0.05	-	+0.95
Brit Columbia	02/02	3.250	AA	103.6230	1.95	-	+0.03	+0.27
Hydro-Quebec	05/01	6.750	[illegible]	108.5500	2.61	+0.01	+0.07	+1.04
Gen Elect.	09/01	1.250	n/a	99.6768	1.66	+0.01	+0.06	-0.01
YEN								
IBRD (World Bk)	03/02	5.250	AAA	114.1469	0.47	+0.01	-	-
Spain (Kingdom)	03/02	5.750	AA	115.5834	0.49	+0.01	-0.02	+0.02
Cred Foncier	06/02	4.750	A	112.5731	0.84	+0.01	-0.01	+0.47
Italy (Rep of)	07/99	0.516	AA	100.0328	0.34	+0.10	+0.08	+0.04
A$								
IBRD (World Bk)	02/08	8.000	AAA	101.7823	5.74	+0.02	-0.01	+0.23
Nw Sth Wales Tr	05/06	6.500	n/a	104.0617	5.79	+0.03	+0.02	+0.37
[illegible]	06/03	7.750	AA	107.2832	5.76	+0.03	-0.01	+0.58
GMAC Aust	06/01	9.000	n/a	106.7273	5.56	+0.01	-0.06	+0.59

London closing. Standard & Poor's ratings. Yields: Local market standard/Annualised basis. Source: Interactive Data/FT Information.

UK BONDS

FTSE Actuaries Government Securities — UK Indices

[illegible]

FT Fixed Interest Indices

[illegible]

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UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

Oil deal gives commodity bloc boost

MARKETS REPORT

By Alan Beattie

Rises in raw materials prices gave most commodity currencies a boost yesterday as the prospect of cuts in oil output came closer.

But the Canadian dollar's rise was capped by its domestic problems, and analysts said that the support its dollar bloc cousins received from higher raw materials prices might fade.

The Australian dollar in particular benefited from rises in world commodity prices, which hit a six-week high yesterday as higher oil and copper prices led the way. The Aussie closed in London at $0.639 against the dollar, up from $0.634 on Tuesday.

The Canadian dollar, after posting strong gains in the North American trading session yesterday, failed to make further headway against the US dollar yesterday. The loonie closed in London at C$1.507, little changed from Monday's close.

■ Analysts said that the movement was a fairly typical reaction to a move in commodity prices. But few thought that demand was strong enough to turn the threats of a cut in oil supply into a strong recovery in world commodity prices.

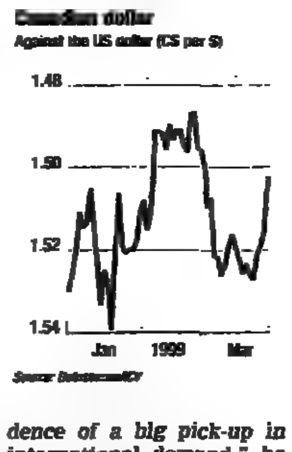
"There has been lots of interest in the Australian dollar, some of which is fund buying," said James McKay, global markets strategist at the Commonwealth Bank of Australia in London. "The sharp rise in commodity prices is undoubtedly behind this." Mr McKay added that the CBA's own commodity price index, weighted according to Australian exports, was also showing a rapid increase.

He said that the Canadian dollar was only partially benefiting from the rise in raw materials prices because of dovish comments from Gordon Thiessen, the Bank of Canada's governor, on Monday. Canada's problems with its current account and government debt were also preventing a sustained rally in the currency, he said.

Andrew Cates, international economist at Warburg Dillon Read in London, said this did not appear to be a demand-led rally in commodity prices.

"The two main elements of the rise are the OPEC deal and the agreement of non-OPEC countries such as Norway and Mexico to cut their oil production," said Mr Cates.

"But the CRB index is only 2.4 per cent above its recent lows, and there is no evidence of a big pick-up in international demand," he added.



Source: Datastream/ICV

■ The yen strengthened against the dollar yesterday despite increasingly concerted attempts by Japanese authorities to talk it back down.

The Japanese currency rose during the London trading session as foreign capital flowed into the country, chasing recent rises in share prices. It closed in London at Y118.0.

"Investors who have been underweight Japan have increased their holdings," said Gerard Lyons of DKB International in London. But he said that with the Bank of Japan ready to intervene verbally if the currency rose too far, the dollar-yen rate should trade in a range around the Y120 level in the near term.

■ The Polish monetary policy council yesterday appeared to quash rumours that it was about to abandon its crawling peg system and float the currency.

Stories that the zloty was about to be floated had circulated in the currency markets, but Cezary Jozefiak, a member of the policy council, said that the decision was unlikely to be taken at the council's meeting today.

Jeffrey Woodruff, currency analyst at BankBoston in London, said that he understood the motivation for the move but felt that the timing was wrong. "The zloty has fallen below its central rate recently for the first time since 1997," he said. "The authorities may feel that by cutting it free they can avoid spending most of their foreign currency reserves propping up the peg."

But Mr Woodruff felt that this might have the effect of accelerating investor flight out of Polish assets. "The time to abandon a peg is when things are going well," he said. "Such a move now may further diminish confidence in the currency."

POUND IN NEW YORK

Mar 23	—Latest—	—Prev. close—
£ spot	1.6385	1.6280
1 mth	1.6379	1.6273
3 mth	1.6375	1.6268
1 yr	1.6413	1.6298

OTHER CURRENCIES

Mar 23	£	$
Czech Rp	57.4289 - 57.5114	35.2130 - 35.2420
Hungary	380.176 - 380.771	233.110 - 233.330
Iran	4895.70 - 4932.70	3000.00 - 3000.00
Kuwait	0.4963 - 0.4971	0.3043 - 0.3046
Peru	5.5271 - 5.5354	3.3890 - 3.3920
Poland	6.4584 - 6.4705	3.9600 - 3.9650
Russia	40.0223 - 40.3075	24.5400 - 24.7000
U.A.E.	5.9900 - 5.9941	3.6728 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Mar 23		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria*	(Sch)	20.6007	+0.0566	887 - 127	20.6227	20.4814	20.5578	2.5	20.486	2.2	20.1655	2.0	102.4
Belgium*	(BFr)	60.3933	+0.1747	581 - 284	60.4590	60.0450	60.2675	2.5	60.0571	2.2	59.1709	2.0	102.0
Denmark	(DKr)	11.1261	+0.0315	203 - 318	11.1417	11.0618	11.1065	2.1	11.0721	1.9	10.9336	1.7	105.2
Finland*	(FM)	8.9014	+0.0257	962 - 066	8.9110	8.8500	[illegible]	2.5	8.8519	2.2	8.7213	2.0	80.6
France*	(FFr)	9.8204	+0.0284	147 - 261	9.8308	9.7635	9.7998	2.5	9.7656	[illegible]	[illegible]	2.0	105.3
[illegible]													

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Mar 23		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria*	(Sch)	12.6276	+0.0006	241 - 311	12.6640	12.5056	12.6064	2.0	12.5655	2.0	12.3327	2.2	102.2
Belgium*	(BFr)	37.0190	+0.0255	091 - 295	37.1200	36.9550	36.9571	2.0	36.8374	2.0	36.2134	2.2	[illegible]
Denmark	(DKr)	6.8200	+0.0043	185 - 214	6.8406	6.8058	6.8108	1.6	6.7914	1.7	6.6915	1.9	104.5
Finland*	(FM)	5.4563	+0.0037	[illegible] - 578	5.4724	5.4468	5.4471	2.0	5.4296	2.0	5.3375	2.2	80.2
France*	(FFr)	6.0197	+0.0042	180 - 213	6.0373	[illegible]	6.0096	2.0	5.9901	2.0	5.8887	2.2	104.8
[illegible]													

WORLD INTEREST RATES

MONEY RATES

Mar 23	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Euro-zone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	3.00	3.00
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
US	[illegible]	[illegible]	[illegible]	5	[illegible]	-	4.50	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
$ LIBOR BBA London								
Interbank Fixing	-	[illegible]	5	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	[illegible]	4.77	4.83	5.01	-	-	-
Euro Linked Ds	-	3	3	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
BBA Euro Libor	-	[illegible]	[illegible]	3	3	-	-	-
Euro Euribor	-	3.024	3.019	2.999	3.011	-	-	-
EONIA	[illegible]	-	-	-	-	-	-	-
EURONIA	2.4052	-	-	-	-	-	-	-

London interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am. Bid rates are shown for the domestic Money Rates, US$ CDs, Euro & SDR Linked Deposits (Ds).

INTERNATIONAL CURRENCY RATES

Mar 23	Short term	7 days notice	One month	Three months	Six months	One year
Euro	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canadian Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japanese Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	2 - [illegible]	[illegible] - 2	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

THREE MONTH EURIBOR FUTURES (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	97.11	97.10	-	97.11	97.09	5,233	37,382
Sep	97.13	97.12	-0.01	97.13	97.12	4,540	27,343

THREE MONTH EURIBOR FUTURES (LIFFE) €1m 100 - rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	97.105	97.105	-	97.115	97.090	38009	198495
Sep	[illegible]	97.125	-0.005	97.130	97.110	27172	170345
Dec	96.880	96.875	-0.015	96.885	96.865	13096	86863
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	15534	83477

THREE MONTH EURO LIBOR FUTURES (LIFFE) €1m 100 - rate

[illegible]

EURIBOR OPTIONS (LIFFE) €1m 100 - rate

[illegible]

THREE MONTH EURO LIRA OPTIONS (LIFFE) €1m 100 - rate

[illegible]

THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m 100 - rate

[illegible]

THREE MONTH EUROYEN FUTURES (LIFFE) Y100m 100 - rate

[illegible]

EURO SWISS FRANC OPTIONS (LIFFE) SFr1m 100 - rate

[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

D-MARK FUTURES (CME) DM 125,000 per DM

[illegible]

JAPANESE YEN FUTURES (CME) Yen 12.5m per Yen 100

[illegible]

SWISS FRANC FUTURES (CME) SFr 125,000 per SFr

[illegible]

STERLING FUTURES (CME) £62,500 per £

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

[illegible]

PHILADELPHIA SE D-MARK/$ OPTIONS

[illegible]

THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

[illegible]

THREE MONTH EURODOLLAR (CME) $1m points of 100%

[illegible]

US TREASURY BILL FUTURES (CME) $1m per 100%

[illegible]

SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	Calls Jun	Calls Sep	Calls Dec	Puts Jun	Puts Sep	Puts Dec
94750	0.275	0.410	0.360	0.040	0.070	0.270
94875	0.180			0.080		
95000	[illegible]	0.240	0.225	0.125	0.150	0.385
95125	0.065			0.205		
95250	0.035	0.120	0.135	0.300	0.280	0.555
95375	0.020			0.410		

Est. vol. total, Calls 18035 Puts 9185. Previous day's open int., Calls 415750 Puts 454223

BASE LENDING RATES

	%		%		%
Adam & Company	5.50	Exeter Trust Limited	5.50	Smith & Williamson	5.50
Allied Irish Bank (GB)	5.50	●Robert Fleming & Co	5.50	Sun Bank	5.50
●Henry Ansbacher	5.50	Habib Bank AG Zurich	5.50	TSB	5.50
Banco Bilbao Vizcaya	5.50	Heritable & Gen Inv Bk	5.50	United Bank of Kuwait	5.50
Bank of Cyprus	5.50	C. Hoare & Co	5.50	Unity Trust Bank Plc	5.50
Bank of Ireland	5.50	●SG Hambros Bank & Trust	5.50	Whiteaway Laidlaw	5.50
Bank of India	5.50	Hongkong & Shanghai	5.50	Yorkshire Bank	5.50
Bank of Scotland	5.50	Investec Bank (UK) Ltd	5.50		
Barclays Bank	5.50	Julian Hodge Bank	5.50		
Brit Bk of Mid East	5.50	●Leopold Joseph & Sons	5.50		
●Brown Shipley & Co Ltd	5.50	Lloyds Bank	5.50		
Citibank NA	5.50	Midland Bank	5.50		
Clydesdale Bank	5.50	NatWestminster	5.50		
The Co-operative Bank	5.50	●Rea Brothers	5.50		
Coutts & Co	5.50	Royal Bk of Scotland	5.50		
Cyprus Popular Bank	5.50	Scottish Widows Bank	5.50		
Duncan Lawrie	5.50	●Singer & Friedlander	5.50		

● Members of London Investment Banking Association

IPE may convert to limited company

By Paul Solman in London and Nikki Tait in Chicago

The International Petroleum Exchange is considering converting to a limited company instead of merging with the New York Mercantile Exchange. The plan was developed in response to calls from IPE members for an alternative to the Nymex merger, Lord Fraser, IPE chairman, said yesterday.

The London-based exchange, which trades the benchmark Brent blend crude oil contract, has been in discussions with Nymex, which specialises in energy and metals derivatives, since last year.

"There has been some concern on the part of our members about a loss of independence under the Nymex merger plan," Lord Fraser said. He said IPE members had raised a number of issues, including the regulatory implications of combining with a US exchange.

Under the new plan, the IPE would aim to raise up to £25m by converting to a limited company and selling up to 70 per cent of its shares. Shareholders would be allowed to own up to 15 per cent of the exchange each.

Exchange members would retain voting rights over 30 per cent of the new company. Floor members would receive about £300,000 per floor seat to compensate them for their loss of control of the board, while local members could receive about £30,000 per seat.

IPE officials denied recent reports that a consortium of oil companies had proposed buying the exchange to "save it from Nymex".

"We approached a number of energy companies, and some in turn approached us," said Lynton Jones, IPE chief executive.

Lord Fraser said the IPE had also been in talks with European energy groups with a view to offering them a stake in the exchange. He declined to name potential shareholders but said the IPE had held talks with prominent companies.

Mr Jones added that the Nymex merger offer was still on the table, and any decision to reject it in favour of converting to a limited company would not affect existing co-operation agreements with the US exchange, including the development of a joint electronic trading system, known as ETS in London and Access in New York.

The IPE said its board would meet next week to discuss the limited company plan. A decision was likely "well before the end of the year".

In Manhattan, Nymex declined to speculate on how the IPE's latest plans might affect the merger proposal. "We have an offer on the table and are waiting for a response," it said.

Tanzanian seaweed group fights tide of bureaucracy

The industry has overtaken cloves and is second only to tourism in the country but it is struggling to survive, writes Mark Turner

Seven years ago, Murtaza Fazal arrived in Tanzania with a kilogram of seaweed sneaked out of the Philippines, hoping to start cultivation on the offshore islands. When he arrived, he discovered that only six grammes had survived the journey.

Mr Fazal pressed ahead with his project, however, and today seaweed is a leading export product for Zanzibar. Seaweed, he says, has overtaken cloves and is second only to tourism, making the country the third largest producer.

The seaweed, or more precisely *eucheuma cottonii* and *eucheuma spinosum*, contains a gum called carrageenan, that is used as a stabiliser and thickener in products ranging from ice cream and salad dressing to luncheon meat and shampoo. The product is dried, and then shipped to one of a few high-tech processing factories in Denmark or the US.

However, despite his success, Mr Fazal says that structural barriers in Tanzania and increasing overseas competition may force him to look for other options. He warns that high taxes and poor infrastructure risk destroying Zanzibar's new golden egg.

On the surface, the market for seaweed looks favourable. For the 10 years until 1996, prices grew at 5 per cent or more a year.

Kingsway International, Mr Fazal's company, has seen production of dried seaweed jump from 180 tonnes in 1995 to 1,800 tonnes last year, despite problems caused by El Nino salinity fluctuations, and hopes to achieve 3,500 tonnes by 2000.

Zanzibar and Pemba as a whole produced around 5,500 tonnes last year, fetching prices of between $350 and $450 a tonne. Global demand stood at around 130,000 tonnes, while supply – according to Mr Fazal – was around 100,000 tonnes.

However, bureaucratic red tape is making life difficult for producers. Tanzania is striving to overcome the legacy of 30 years of socialism.

Like many of his compatriots, Mr Fazal, 42 years old, left for New York in the 1970s, but decided to return to Tanzania in 1989 on the back of the then President Ali Hassan Mwinyi's promises of reforms.

But change has been slow to filter through. Despite some marked improvements in Tanzania's macroeconomic record, small-scale investors complain that the country remains a very difficult place to do business.

"If I had known how much red tape there was, I would never have come back," says Mr Fazal. "To export a shipment we have to fill in 21 forms; invariably, for each of our 120 containers, I have to sort things out at the port. In the US I exported 4,000 containers a year and never saw the port."

And while Tanzania is one of the few countries in the world where the warm water varieties of *cottonii* and *spinosum* can survive, it is facing competition. Madagascar and Mozambique are entering the fray.

Investors provide farmers with stakes, cords and floats

The country's farmers suffer from low productivity. A farmer in Zanzibar produces 200kg a month (earning $150 to $300 in a season) compared with up to two tonnes in the Philippines.

Also, there is resistance to changing cultivation from *spinosum* (for which demand and prices are now relatively low) to the more valuable, but more demanding, *cottonii* variety. This is all the more worrying as other African countries move into *spinosum*.

The system whereby production is supported by investors may be insufficient. Investors in Tanzania provide farmers with basic inputs – stakes with cords between them, ties to fix the seedlings to the cord, and floats to keep them at the right level – and buy the seaweed when it is harvested after six to eight weeks.

"Tanzania is no longer the lowest-cost producer. In other countries they are helping farmers by giving them loans to buy inputs themselves," says Mr Fazal.

"In Tanzania they suffer from what I call the old clove or sisal syndrome – 'the world wants it, so we should keep demanding higher prices'. But they don't realise the cost of over-producing one type of product. If Tanzania produces another 1,000 tonnes of *spinosum*, prices could drop by $100."

Traders cool on Opec oil agreement

MARKETS REPORT

By Paul Solman

World oil traders reacted coolly to yesterday's confirmation by the Organisation of Petroleum Exporting Countries that leading crude producers would shave another 2.1m barrels a day from total output.

The agreement, which ratifies a deal thrashed out in the Hague earlier this month, adds to last year's cut of 2.6m barrels a day, in an effort to support prices.

In late trading on London's International Petroleum Exchange, the benchmark May contract for Brent blend was $13.85 a barrel, compared with Monday's close of $13.88.

The US market was less positive, however, with benchmark May crude on the New York Mercantile Exchange weakening to $15.61 a barrel in afternoon trading, compared with Monday's close of $15.74.

Base metals strengthened on the London Metal Exchange, with three-month copper jumping to five-week highs at one stage then falling back on a bout of profit-taking. At the close, copper was $61 higher at $1,450 a tonne.

Nickel closed up $40 at $5,270 a tonne, while zinc was up $21 at $1,055 a tonne.

In other news, Minas Rio Tinto of Spain said it would extend the shutdown of its Huelva copper mine until at least the end of the year because of the weak copper prices.

On the London International Financial Futures and Options Exchange, cocoa futures recovered some ground after Monday's fall, the most actively traded May contract ending up £16 at £823 a tonne.

May robusta coffee fell again, closing down $8 at $1,489 a tonne.

NEWS DIGEST

GRAIN SHIPMENTS

Ottawa legislates against strikes in Vancouver

The Canadian government has introduced back to work legislation to end a series of strikes that have disrupted grain exports at Vancouver, but the union representing disgruntled grain weighers has hinted it may not obey the law once it is passed. About 70 grain weighers at Vancouver's loading terminals have staged intermittent strikes over the past several months in a bid for a wage increase. They walked out more than a week ago and set up picket lines, forcing the terminals to shut down for one week.

The grain weighers returned to work briefly on Monday before walking off the job again in protest of the government's legislation. Vancouver's five loading terminals were operating yesterday as management filled in for striking grain weighers, said a spokesman for the Canadian Grain Commission, the federal quality control agency.

The bill, which affects federal employees in a number of professions, provides for a 5.5 per wage increase over a 30-month period, less than Ottawa's last offer to the union. More than 40 per cent of Canada's grain exports are shipped through Vanoouver, or about 250,000 tonnes of grain a week. The country's grain shipments operate on a just-in-time basis and delays easily disrupt the system. Exports affected by the strike include wheat, barley and canola. **Scott Morrison, Toronto**

CRUDE OIL

Discovery in Venezuela

A consortium led by Conoco, the US oil company, has discovered large crude oil reserves in its Paria Oeste field in eastern Venezuela. An exploration well produced 4,195 barrels of crude oil and 10.6m cubic feet of gas per day, the consortium said. Conoco, which won rights to explore the field in January 1996, said the test results were encouraging but additional studies were under way to determine the real value of the find. If these prove favourable, total investment in the field could exceed $1.1bn. Venezuela is one of Conoco's three "core" areas after North America and Europe.
Raymond Colitt, Caracas

COMMODITY PRICING

CBA launches real-time index

The Commonwealth Bank of Australia has launched a real-time commodity index that aims to predict 90 per cent of the movements of the Australian dollar. CBA hopes the index will be used as the industry standard for the effect of commodity prices on the currency. The Australian dollar is strongly linked to movements in world raw material prices, with three-quarters of the country's exports comprising basic or semi-manufactured goods.

The most widely used indicator for global prices, the Commodities Research Bureau (CRB) index, is a poor match for Australian output due to the composition of the commodity prices used, CBA analysts say. **Alan Beattie**

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

[illegible]

Precious Metals continued

GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	284.4	-0.1	284.7	282.8	-	-
Apr	284.7	-0.1	285.6	282.6	9,796	52,915
Jun	286.8	-0.1	287.7	284.6	6,456	46,565
Aug	288.9	-0.1	289.5	288.0	20	9,257

[illegible]

GRAINS AND OIL SEEDS

WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	74.50	+2.00	73.50	73.50	6	6
May	74.60	+0.40	74.90	74.25	127	3,118
Jul	76.25	+0.25	76.75	76.00	109	1,643
Sep	75.50	+0.50	-	-	-	178

[illegible]

FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	980	-5	-	-	-	190
Apr	985	-10	995	985	23	887
May	970	-4	-	-	-	97
Jul	860	-5	860	860	12	577
Oct	1000	+5	-	-	-	438
Total					[illegible]	2,238

	Close	Prev
BFI	988	974

PULP AND PAPER

PULPEX OMLX (US$: 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	452.50	+1.50	-	-	-	583
Sep	473.00	+2.75	-	-	-	76
Total					-	661

FUTURES DATA

All futures data supplied by CMS.

Tea from the Tea Brokers' Association **Mombasa** There was good demand. Brighter BP1s were irregularly dearer following quality while mediums appreciated by 4 to 10 cents. Neater lower mediums and plainer sorts gained 3 to 10 cents but poor leaf and fibrous types were neglected. Apart from a few lines, brighter and medium PF1s were irregularly easier by 3 to 15 cents. Lower mediums declined by 10 to 15 cents while plainer descriptions shed 2 to 6 cents with poor leaf sorts at times neglected. Bright p.dusts were opened dearer by 3 to 12 cents but eased later in the sale. Brighter dusts were irregular.

SOFTS

COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	818	+16	817	800	24	739
May	824	+17	826	804	3,035	40,156
Jul	839	+14	841	820	1,007	16,116
Sep	856	+13	857	839	3,161	27,801

[illegible]

ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	81.10	-0.30	81.70	81.00	767	17,696
Jul	82.50	-0.05	82.65	82.25	353	5,301
Sep	83.25	-0.05	83.60	83.15	37	2,554
Nov	84.20	+0.10	84.00	84.00	2	2,211
Jan	86.15	+0.30	85.90	85.90	125	1,241
Mar	88.15	+0.50	-	-	-	317
Total					1,289	29,481

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

Reuters (Base: 18/9/31 = 100)

Mar 23	Mar 22	month ago	year ago
1374.7	1374.2	1428.2	1678.0

CRB Futures (Base: 1967 = 100)

Mar 22	Mar 19	month ago	year ago
190.45	188.12	-	-

GSCI Spot (Base: 1970 = 100)

Mar 22	Mar 19	month ago	year ago
149.27	148.41	131.19	162.40

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-2,875	to	812,725
Aluminium alloy	-1,780	to	74,600
Copper	-	to	694,650
Lead	[illegible]	to	103,925
Nickel	-48	to	57,306
Zinc	+300	to	305,075
Tin	+45	to	9,235

MEAT AND LIVESTOCK

LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	67.400	+0.400	67.450	66.925	6,363	42,151
Jun	64.475	+0.400	64.500	64.125	4,512	40,196
Aug	62.850	+0.200	62.950	62.600	1,683	17,197
Oct	64.650	+0.275	64.800	64.575	451	10,705

[illegible]

LONDON TRADED OPTIONS

[illegible]

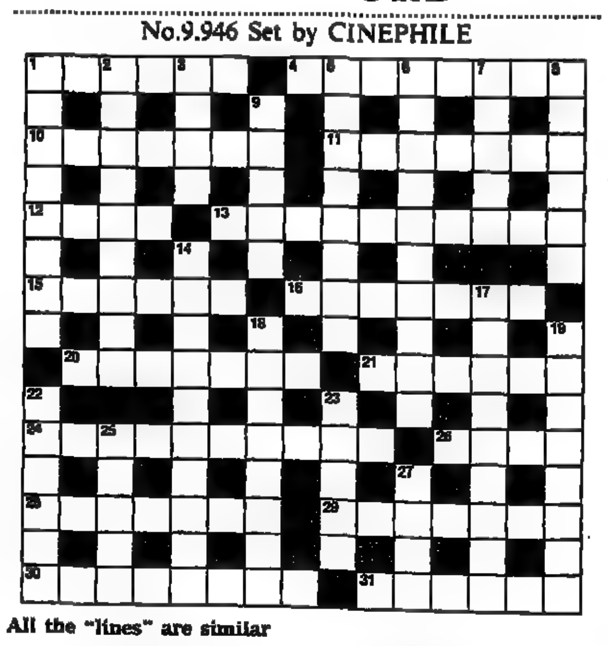
LONDON SPOT MARKETS

[illegible]

JOTTER PAD

CROSSWORD

No.9,946 Set by CINEPHILE



All the "lines" are similar

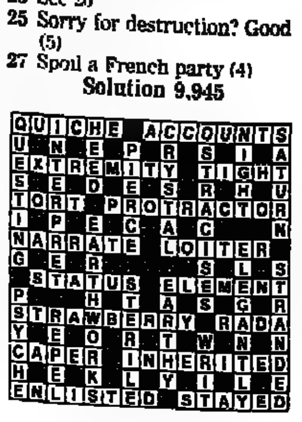
ACROSS

1 Pardon the French gentleman (3,3)
4 Islands go back with no profit: speakers here are alike (8)
10 Maker of lines to wonder at their opening (7)
11 Lines I send on after five (7)
12 Travelled, say, and where? (4)
13 Where little beds are boxed in? Speed's a possible danger (4,6)
15 Danger point for beginners in Cricklade on Thames (6)
16 Energy and purpose producing deep feelings (7)
20 Lines ordered to include everything (7)
21 Eastern man is western god (6)
24 Vocal problem? Try sailing to cure it (10)
26, 23 Irregular lines in Mrs Miniver's libretto (4,5)
28 Lines translated by topless flower girl (7)
29 Lines that upset our dean (7)
30 Intellectuals taken off with a spoon? (8)
31 Lines from a child-catcher (6)

DOWN

1 Lines to drink with straws? (8)
2 Supply Zaire with tram lines (5,4)
3 No charge for those irregular lines (4)
5 Speed things up, apart from the enemy (4,4)
6 Rag and nag rising Malaysian gentleman that's enormous (10)
7 Mellow and unlikely to squeak? (5)
8 Negative principle in loss of tension caused by saw (6)
9 Nothing can be drawn on epic lines (5)
14 Lines for the house of Gwyn, do we hear? (10)
17 Balkan money raised by surgeon even long ago produced soft fabric (9)
18 Publicity curtailed Richard and Edward – they won't give up (8)
19 Revolutionary's search for commuter town (8)
22 Casual bighead set fire to explosive (6)
23 See 26
25 Sorry for destruction? Good (5)
27 Spoil a French party (4)

Solution 9,945



For solutions to today's crossword call 0906 843 0060. Calls cost 60p a minute.

FT MANAGED FUNDS SERVICE

• FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

CAYMAN ISLANDS (REGULATED)(**)

GUERNSEY (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

Baring Intl Fd Mngrs (Ireland) Ltd

IFSC Hse, Custom Hse Docks Dublin 0171-628 6000

Herald Investment Fund Plc

12 Charterhouse Sq, London EC1M 6AX 44171 5530280

The Herald Worldwide Fund

NAV Mar 18 F ___ 3½ £10.44xd +0.01 -

Investec Guinness Flight FM (Ireland) Ltd

PO Box 250, St Peter Port, Guernsey GY1 3QH, CI

Enquiries 01481 712176 Dealers 01481 710404

Guinness Flight Select Funds Plc

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Lazard Global Equity Fund Plc

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ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

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LUXEMBOURG (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

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هكذا من الأصل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Allied Domecq	†♥	455½xd	-4½	646	385	4,774	6.9	11.5
Bulmer (HP)		322½	—	399	278½	–	3.8	14.4
Burn Stewart		11½	—	29½	7	4	–	–
Diageo	♣	670xd	-1½	795	476	6,957	2.8	16.7
Glenmorangie A	†	572½	-7½	980	572½	250	3.2	15.6
B	†	657½	-15	980	657½	–	1.4	35.7
Highland		231½	+1½	325	223	82	5.0	10.6
5¾pc Cnv Sub Bd		97½	—	100½	90½	–	5.9	–
Kirin Y		721¼xd	-18	814¼	457¼	–	0.9	56.3
Merrydown		28	—	54½	18½	18	–	♠
Seagram C$		£29	+⅞	£30⅞	£14⅜	–	0.9	–
South African Brews		589	-½	908½	433	1,878	–	–

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
SGB Group	♥	241½xd	—	288	149½	8	3.3	♠
Swan Hill	♥	65	-1	98	32½	17	5.2	♠
Tay Homes	♣	118	—	134½	105½	–	8.2	–
Taylor Wood		180½	+½	238	133½	1,852	2.9	10.9
Tilbury Douglas		244½xd	+3½	308	208½	66	4.5	♠
Try	♥	21¼xd	—	28¼	12¼	102	5.1	♠
Vhe		28½	—	112½	20½	–	6.1	5.1
Vibroplant		52	—	88	51½	–	8.7	25.1
Warnmoles		137½xd	—	139½	90½	24	5.5	11.3
Ward Hldgs		36½xd	—	68	25½	1	5.6	–
Westbury		248½	-1	287½	145	13	3.9	10.0
Wiggins Group		13¼	-¼	16	9¼	1,646	–	27.9
Wilson (Connolly)		130½	—	188½	65½	908	4.8	8.7
Wilson Bowden	♥	681½	[illegible]	735	485	116	2.4	10.1
Wimpey (G)		149½xd	+5½	149½	90½	5,894	4.4	8.5

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

FOOD PRODUCERS - Continued

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Continued

HOUSEHOLD GOODS & TEXT

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

هكذا منذ الأصل

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

AIM

Alternative Investment Market

AIM - Continued

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4:30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for these particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column only as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent (except where payment is due after 6/4/99 when no tax credit will be applied) and allow for the value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1570 a year for each security shown, subject to the Editor's discretion

FT Free Annual Reports Club

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FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details. Calls are charged at 60p per minute at all times.

An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.

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For Retail Price Index details call 0906 843 0065

The FT web site

London share prices are available throughout the trading day with a 20 minute delay from our web site, http://www.ft.com, which also has the closing share prices printed on these pages.

LONDON STOCK EXCHANGE

Footsie takes fright at threat from Fed and Dow

MARKET REPORT

By Peter John

Near-term concerns about US equities outweighed some positive UK economic news and the FTSE 100 index fell 1.5 per cent.

It was not necessary to consult a highly paid market strategist to produce a solid analysis of what was going on. The Dow Jones Industrial Average hit 10,000 last week and then took fright. By the London close yesterday, it had rattled all the way back to 9,750, and Footsie followed suit.

The UK index ended the session 92.3 down at 6,060.5 while the lesser indices, being broadly unaffected by international market moves, trod water. The FTSE 250 dipped 12.8 to 5,475.6 and the SmallCap 4.0 to 2,395.1.

"This is a market that has threats overhanging it," said John Shepperd of Dresdner Kleinwort Benson. "There are still perceptions out there that the US equity market is overvalued and vulnerable and if the US has a setback there are global implications."

The first threat came from Vienna. Agreement by Opec that it would cut daily oil production might be encouraging for strapped oil companies but it could also force higher oil prices and more inflationary pressure.

The second threat is also outside UK control. The Federal Reserve's open market committee, responsible for interest rates, meets next Tuesday and might well take a more aggressive line.

Mr Shepperd believes the committee does not have to increase rates to stop the Dow in its tracks.

"The risk is that it might move to a tightening bias whereby the committee can raise rates in between meetings if things develop adversely. It would be a warning shot across the bows," he said.

Thus, UK government bonds fell 25 basis points even though there were no domestic hints of higher inflation.

In fact, the latest retail price data showed underlying inflation fell below the government's 2.5 per cent target for the first time in four years in February.

HSBC Securities said: "The all-items headline measure should drop to its lowest level since the 1960s, helping to diminish any disadvantage the UK still suffers over its neighbours in terms of inflation psychology and expectations."

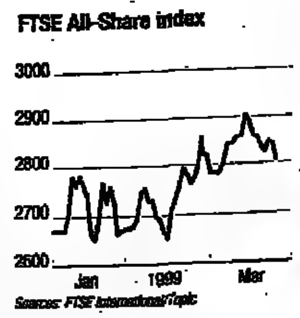
Strategists point to lower inflation data, weak fourth-quarter gross domestic product figures, and minutes from the Bank of England, which suggest the monetary policy committee is more keen to cut interest rates than previously.

They see strong evidence that the committee will lop another quarter point off base rates – currently 5.5 per cent – on April 8. Another cut combined with heavy buying as private investors take advantage of the last ever personal equity plans could help Footsie break though the current range. But yesterday, it appeared dealers were staying out of the kitchen until they could gauge the heat from the Federal open market committee.

They were certainly slightly shy of the internationally traded blue chips, especially banking and insurance issues.

Turnover reached 1.2bn shares with the bias shifting in favour of non-Footsie stocks although oil stocks remained heavily traded.

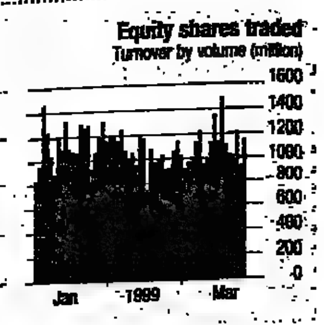
FTSE All-Share index



Sources: FTSE International/Topic

Equity shares traded

Turnover by volume (million)



Indices and ratios

FTSE 100	6060.5	−92.3	FT 30	3703.3	−34.7
FTSE 250	5475.6	−12.8	FTSE Non-Fins p/e	24.43	24.72
FTSE 350	2897.1	−38.0	FTSE100 Fut Mar	6051.0	−145.0
FTSE All-Share	2807.76	−35.28	10 yr Gilt yield	4.68	4.64
FTSE All-Share yield	2.69	2.66	Long gilt/equity yld ratio	1.73	1.76

Best performing sectors

1 Extractive Industries +1.8
2 Transport +0.8
3 Retailers: Food +0.7
4 Property +0.7
5 Electronic & Elect Equip +0.7

Worst performing sectors

1 Oil Exploration & Prod −2.3
2 Insurance −2.3
3 Banks: Retail −2.2
4 Life Assurance −2.1
5 Household Goods & Texts −2.0

P & O heads for sea

COMPANIES REPORT

By Joel Kibazo and Simon Bernholt

Traders celebrated bumper figures from P & O and the company's restructuring plans. Profits of £415.9m against £363.3m last time were at the top end of market expectations while the group raised the dividend for the first time since 1990.

But it was plans for the transport and property company to refocus itself as a maritime group that really cheered the market.

The decision will involve a move out of property, the flotation of P & O's Bovis construction subsidiary, the disposal of Earls Court Olympia, and the flotation of the group's container shipping joint venture P & O Nedlloyd.

The shares jumped 45 to 860½p, the best performance in the FTSE 100, as brokers queued to place the stock on their buy lists. BT Alex Brown was among those that turned positive, raising its recommendation from "hold" to "buy".

The broker already has a £12.00-a-share break-up valuation on the stock. "The unbundling of P & O should make it easier to value the group as a whole – especially the cruise division, which will now be more easily compared to its peers which trade on multiples of 30 times or more," said the broker.

WestLB Panmure, one of the company's two brokers, raised its near-term price target from 900p to £10.00.

However it was not all good news. Rating agency Standard & Poor's placed its A-minus corporate credit and senior unsecured debt rating on P & O on CreditWatch with negative implications.

Iceland led the way in food retailers as the sector outperformed a falling market. The shares rose 8½ to 283½p after profits at the top of expectations and like-for-like sales up 10 per cent.

The group said it would continue to invest in brand development, and analysts highlighted the strength of its home-delivery business, particularly the partnership with interactive broadcaster Open. Panmure Gordon has a price target of 350p.

Competitor **Somerfield** rose 13 to 334½p on the news. BT Alex Brown rates the company a "strong buy" with a price target of 500p.

Tesco finally announced its long-mooted joint venture with Samsung in South Korea and traders reacted favourably to its continued overseas expansion, sending the shares up 2½ to 166p.

Other groups were helped by the positive background and some bottom-fishing as the sector has underperformed the market this year by around 15 per cent, with Asda edging up to 151p and Safeway rising 3½ to 244½p.

News that leading oil producers, meeting under the auspices of Opec, have agreed to trim output by around 2.1m barrels a day from next month did little to prevent the selling of big oil stocks in London.

Shell Transport surrendered 15¼ to 406½p, in trade of 26m, after HSBC downgraded its recommendation from "buy" to "add" saying the stock had outperformed the market by 26 per cent in the last month. HSBC said: "The risk/ reward ratio in the sector is now more balanced."

BP Amoco, the oil major most exposed to underlying oil prices, eased a penny to £10.02.

In telecoms, **Securicor** continued to power ahead. The shares gained 19 to 573p as ABN Amro joined the stock's list of fans.

Dealers still believe the company is in talks with BT about the sale of its 40 per cent stake in mobile telephone operator Cellnet to the UK telecoms giant, which holds the remaining 60 per cent.

Alexander Gunz at ABN expects spring subscriber figures to confirm growth in the UK cellular market and says Cellnet should achieve about 415,000 new additions, 4.6 times more than 1998's first-quarter figure.

"With Cellnet continuing to raise its game, there should be support for the Securicor share price, whilst the pressure on BT to act rises." BT eased 28 to 984p.

Vodafone slips

Profit-taking marked much of the rest of the sector. **Vodafone Group** gave up 23 to £10.28 after trade of 8.2m, while rival **Orange** declined 11 to 899p.

Pennon rose 17 to 956p after WestLB Panmure included the stock among its key recommendations in a positive review of the sector.

In a hefty strategy note, the broker said: "The shares in the water sector are undervalued by between 15 per cent and 51 per cent. The potential for UK water companies to exploit the huge and growing international marketplace for improved water and waste water services should itself see valuations 5-12 per cent higher."

WestLB also likes **Thames Water**, although the stock followed the poor market trend and closed 31½ off at 936p.

Rio Tinto, the world's largest mining company, gained 8½ to 851½p on reports it is talking to several companies about the sale of its Las Cruces copper deposit in Spain.

Firm base metal prices enhanced sentiment in metal-related stocks and **Billiton** also saw genuine buyers. The shares rose 5¾ to 142¾p.

Profit-taking among leading media stocks saw Pearson, which owns the Financial Times, end as the worst performer in the FTSE 100. Having outperformed the FTSE All-Share by around 32 per cent over the last year, the shares fell 66 to £12.51.

Reuters fell 35½ to 830½p despite launching its new flagship international product, Reuters 3000 Xtra. The product is said to offer significant enhancements to the existing 3000 series.

Delancey Estates, up 1 at 98½p, announced it would pay no dividend to Greycoat shareholders, but the property company rose 5½ to 205½p, well above the paper offer, as investors anticipated a cash offer.

Julian Richer, founder of electronic retailer Richer Sounds, has taken a 7.7 per cent stake in Manchester textile company French, whose shares were unchanged at 20½p.

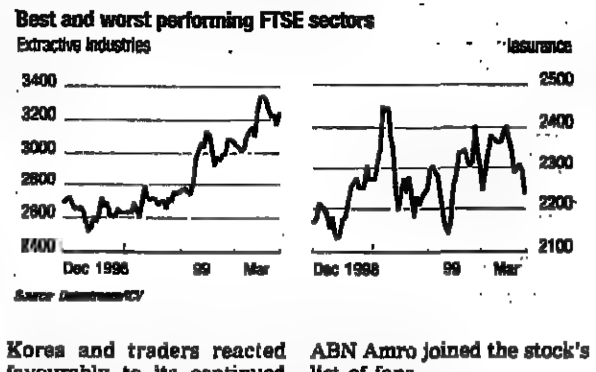
Regional newspaper group **Newsquest** rose 30 to 397½p after buying two Yorkshire advertising freesheets from **The Adscene Group**, unchanged at 154½p, for £850,000.

Scottish Media Group climbed 22 to 865½p after **Granada**, down 58 to 1204p, agreed to buy the 18.6 stake owned by **Mirror Group**, which fell 1¼ to 209p.

A return of cash to shareholders saw **Peel Holdings** jump 67¼ to 645p.

Best and worst performing FTSE sectors

Extractive Industries / Insurance



Source: Datastream/ICV

FT 30 INDEX

	Mar 23	Mar 22	Mar 19	Mar 18	Mar 17	Yr ago	*High	*Low
FT 30	3703.3	3738	3753.4	3716.4	3724.5	3798.7	4004.9	2780.6
Ord. div. yield	2.82	2.79	2.77	2.79	2.78	3.01	4.22	2.72
P/E ratio net	22.50	22.77	22.88	22.76	22.66	24.4	26.41	15.80
P/E ratio nil	22.44	22.71	22.82	22.70	22.80	N/A	26.19	15.71

FT 30 since compilation: high 4004.9 7/15/98, low 49.4 6/26/40 Base Date 1/7/35

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3738.0	3718.6	3730.0	3736.8	3739.8	3734.1	3717.7	3694.2	3741.6	3694.0

 *For 1998/99.

STOCK MARKET TRADING DATA

	Mar 23	Mar 22	Mar 19	Mar 18	Mar 17	Yr ago
SEAQ bargains	90,832	85,311	105,741	85,162	88,659	na
Equity turnover (£m)†	-	4215.9	4277.6	4273.0	3696.1	na
Equity bargains†	-	69,928	66,033	62,705	62,099	na
Shares traded (m)†	-	963.4	888.6	950.7	882.5	na
Total market bargains‡	-	79,401	92,104	75,142	78,290	-
Total turnover (£m)‡	-	5221.5	5880.7	5315.9	4772.8	-
Total shrs traded (m)‡	*1157.1	1149.7	1152.7	1167.1	1087.4	-
Tradepoint turnover (£m)	35.9	16.1	37.1	27.1	30.9	33.9
Tradepoint shrs traded(m)	13.2	7.6	11.6	6.6	10.8	9.8

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	489	Total Highs	57	Total contracts	33,953
Total Falls	1,082	Total Lows	40	Calls	16,391
Same	1,236			Puts	17,562

Mar 23 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	6175.0	6100.0	-90.0	6178.0	6046.0	31412	193559
Sep		6144.0	-94.0			0	3873
Dec		6194.0	-94.0			0	0

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	5505.0	5477.0	-13.0	5505.0	5505.0	3	7383

■ FTSE 100 INDEX OPTION (LIFFE) (*6060) £10 per full index point — Mar 23

	5900 C	5900 P	5950 C	5950 P	6000 C	6000 P	6050 C	6050 P	6100 C	6100 P	6150 C	6150 P	6200 C	6200 P	6250 C	6250 P
Apr	287½	80½	236½	94½	184½	114½	177½	118½	126½	155½	118	187½	88½	200½	[illegible]	242
May	358	167	327	186	295½	205½	264	225	232½	245	201½	267	178	295	155	323½
Jun	427½	225	395	244	361½	263½	327½	282½	298	302	268	322	243	347½	221½	375
Jul	653	306	[illegible]	330½	538	322½	514½	346½	390½	345	[illegible]	370	283½	376	[illegible]	407½
Dec†	726½	441			603½	476½			606	512½			840	550		

Calls 606 Puts 1,480

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point — Mar 23

	5875 C	5875 P	5925 C	5925 P	5975 C	5975 P	6025 C	6025 P	6075 C	6075 P	6125 C	6125 P	6175 C	6175 P	6225 C	6225 P
Apr	276	61	305	90	288	108	173½	128	143½	148	118	172	90½	194½	71	225
May	363	154	328½	180½	296	187	264½	205½	235	226	207½	248½	181½	272½	157½	298½
Jun	442	220	406	236½	376	252½	345½	271½	318½	291	287½	312½	260½	334½	238½	350½
Sep			582½	348½			500	384½			443½	425			383	472
Dec†			700½	442			640	477½			690	514			[illegible]	596

Calls 4,239 Puts 9,380 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

[illegible]

FTSE GOLD MINES INDEX

[illegible]

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	£ Stg Mar 23	Day's chge%	Euro Index	£ Stg Mar 22	Year ago	Gross yield%	Net yield%
FTSE 100	6060.5	−1.5	7061.1	6152.8	5983.7	2.65	[illegible]
FTSE 250	5475.6	−0.2	6397.8	5488.4	5523.3	3.14	2.82
FTSE 250 ex Inv Tr	[illegible]	−0.1	6460.6	5534.6	5562.5	3.26	2.94
FTSE 350	2897.1	−1.3	3384.9	2935.1	2872.2	2.65	2.38

[illegible]

■ FTSE Actuaries Industry Sectors

[illegible]

■ Hourly movements

[illegible]

TRADING VOLUME

■ Major Stocks yesterday

[illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE (EMU) Prices in €

AUSTRIA (Mar 23) 1 € = 13.76030 Sch

BELGIUM/LUX (Mar 23) 1 € = 40.33990 Frs.

FINLAND (Mar 23) 1 € = 5.94573 Mka

FRANCE (Mar 23) 1 € = 6.55957 Frs.

GERMANY (Mar 23) 1 € = 1.95583 Dm

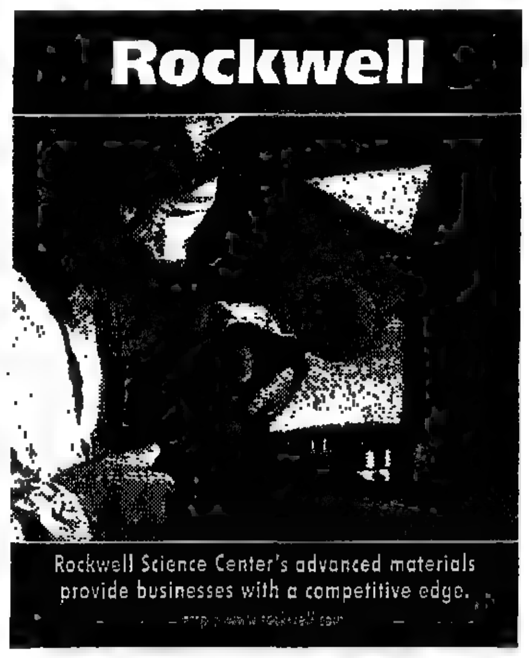
IRELAND (Mar 23) 1 € = 0.78756 Punt

ITALY (Mar 23) 1 € = 1936.27000 Lira

NETHERLANDS (Mar 23) 1 € = 2.20371 Fl.

PORTUGAL (Mar 23) 1 € = 200.48200 Esc.

SPAIN (Mar 23) 1 € = 166.38600 Pta.



EUROPE (NON-EMU)

CZECH REP (Mar 23 / Koruna)

DENMARK (Mar 23 / Kr)

GREECE (Mar 23 / Drachma)

NORWAY (Mar 23 / Kroner)

POLAND (Mar 23 / Zloty)

SWEDEN (Mar 23 / Kronor)

SWITZERLAND (Mar 23 / Frs.)

TURKEY (Mar 23 / TK Lira)

PACIFIC

JAPAN (Mar 23 / Yen)

AUSTRALIA (Mar 23 / Aus$)

HONG KONG (Mar 23 / H.K.$)

INDONESIA (Mar 23 / Rupiah)

MALAYSIA (Mar 23 / MYR)

NEW ZEALAND (Mar 23 / NZ $)

SINGAPORE (Mar 23 / S$)

SOUTH KOREA (Mar 23 / Won)

TAIWAN (Mar 23 / TW $)

THAILAND (Mar 23 / Baht)

AMERICAS

CANADA

TORONTO (Mar 23 / Can $) 4 pm close

MONTREAL (Mar 23 / Can $) 4 pm close

MEXICO (Mar 23 / Peso) 12.30 pm

AFRICA

SOUTH AFRICA (Mar 23 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY MARCH 22 1999 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY MARCH 19 1999 US Dollar Index	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (75)	217.39	0.7	197.99	162.05	229.58	228.22	0.2	3.31	215.90	196.47	159.84	227.55	227.77	219.96	163.66	214.65
Austria (21)	183.59	-1.7	167.20	136.86	171.08	171.08	-1.5	1.96	186.73	169.93	138.25	173.67	173.67	253.73	165.27	211.96
Belgium (22)	372.65	-1.2	339.39	277.79	339.99	339.99	-1.0	1.98	377.23	343.28	279.29	343.49	343.49	446.95	305.26	306.96
Brazil (29)	122.40	-3.3	111.47	91.24	129.26	420.18	-2.5	5.53	126.55	115.16	93.69	133.38	430.92	269.34	89.32	285.18
Canada (113)	207.77	0.6	189.23	154.88	219.42	226.95	0.0	1.75	206.51	187.93	152.89	217.66	226.86	248.78	159.94	240.03
Denmark (34)	418.78	-0.6	381.41	312.18	442.26	388.21	-0.4	1.88	421.29	383.37	311.90	444.03	389.77	537.33	405.62	494.24
Finland (29)	653.49	0.6	595.17	487.15	747.83	747.83	0.8	1.57	649.65	591.19	480.97	741.97	741.97	661.25	338.49	371.84
France (74)	322.36	-0.8	293.59	240.31	304.20	304.20	-0.6	1.96	324.93	295.69	240.57	306.02	306.02	354.45	253.66	285.01
Germany (55)	259.97	-1.5	236.77	193.60	242.43	242.43	-1.3	1.62	263.82	240.08	195.32	245.53	245.53	325.61	226.35	264.80
Greece (36)	452.30	-0.6	411.93	337.17	477.66	955.98	-0.4	0.93	454.99	413.96	336.78	479.45	959.46	454.89	211.47	–
Hong Kong, China (66)	326.86	0.9	297.69	243.66	345.18	325.19	0.9	3.46	323.87	294.72	239.78	341.35	322.25	362.52	196.64	357.95
Indonesia (24)	45.01	-1.6	40.99	33.55	47.53	245.76	-1.4	1.18	45.74	41.63	33.87	48.21	240.18	64.52	19.04	49.75
Ireland (14)	552.26	2.2	502.97	411.88	562.05	562.05	2.4	1.83	540.25	491.63	399.98	548.74	548.74	605.85	395.15	519.43
Italy (53)	172.13	-1.2	156.77	128.32	228.28	228.28	-1.1	1.48	174.31	158.62	129.05	230.71	230.71	192.64	128.68	152.78
Japan (445)	112.68	-0.7	102.60	83.98	118.97	83.98	0.0	0.88	113.43	103.22	83.98	119.55	83.98	113.43	76.83	99.96
Mexico (29)	1406.57	-1.5	1281.04	1048.53	1485.42	14932.76	-1.1	1.72	1428.50	1299.95	1057.61	1505.62	15106.23	1733.73	787.15	1613.73
Netherlands (26)	503.39	-0.7	458.46	375.25	464.34	464.34	-0.5	2.03	506.93	461.31	375.31	466.69	466.69	562.73	394.92	473.58
New Zealand (18)	63.43	0.0	57.77	47.29	66.99	63.17	-0.5	4.50	63.44	57.73	46.97	66.86	63.48	77.16	45.68	76.63
Norway (37)	237.10	-1.6	215.94	176.75	250.39	249.15	-1.4	1.94	241.07	219.37	178.48	254.08	252.58	357.71	181.66	324.20
Philippines (22)	90.82	0.6	82.72	67.70	95.91	175.39	0.4	0.84	90.32	82.19	66.87	95.19	174.68	106.98	42.48	103.57
Portugal (18)	224.48	2.3	204.45	167.34	282.51	282.51	2.5	1.16	219.49	199.74	162.50	275.68	275.88	299.39	194.13	–
Singapore (40)	212.55	0.5	193.58	158.44	224.46	189.30	0.7	1.55	211.54	192.50	156.61	222.96	168.06	243.04	102.45	241.78
South Africa (34)	209.83	0.3	191.10	156.42	221.59	283.15	0.0	3.40	209.18	190.36	154.87	220.47	283.15	346.20	151.55	289.35
Spain (30)	377.83	-1.3	344.11	281.66	436.78	436.78	-1.1	1.60	382.64	348.20	283.29	441.46	441.46	435.19	290.81	361.15
Sweden (43)	508.85	-1.0	463.43	379.32	537.37	618.07	-0.6	2.00	514.03	467.77	380.57	541.78	622.09	628.19	379.18	559.21
Switzerland (30)	392.97	-0.8	357.90	292.94	415.00	356.84	-0.7	1.20	398.26	360.60	293.38	417.55	359.22	441.65	307.73	387.32
Thailand (25)	24.90	-0.9	22.68	18.56	26.29	36.27	-0.7	2.41	25.12	22.86	18.60	26.48	36.52	33.66	8.15	32.06
United Kingdom (202)	391.26	-0.2	356.34	291.67	413.19	356.34	-0.2	2.67	392.19	356.90	290.36	413.36	356.90	401.84	307.96	387.95
USA (609)	534.97	-0.2	486.68	398.35	564.33	534.37	-0.2	1.25	535.55	487.36	396.50	564.46	535.55	542.89	390.12	448.83
Americas (780)	474.20	-0.2	431.87	353.49	500.78	402.52	-0.2	1.28	475.22	432.45	351.83	500.87	403.44	481.42	347.59	406.83
Europe (724)	355.25	-0.7	323.54	264.82	375.16	338.13	-0.5	2.02	357.71	325.52	264.83	377.02	339.92	386.24	282.63	341.41
Eurobloc (342)	101.32	-0.9	92.28	75.53	102.27	102.27	-0.7	1.76	102.28	93.08	75.73	103.03	103.03	113.92	81.53	–
Nordic (143)	496.58	-0.5	452.26	370.17	524.41	520.59	-0.2	1.85	499.22	454.29	369.80	526.17	521.85	555.97	360.04	486.32
Pacific Basin (716)	119.95	-0.4	109.24	89.41	126.67	92.36	0.1	1.34	120.45	109.61	89.17	126.95	92.28	120.45	82.88	111.43
Euro-Pacific (1440)	217.51	-0.6	198.09	162.14	229.70	184.63	-0.3	1.81	218.83	199.13	162.01	230.64	185.25	221.79	166.00	207.32
North America (722)	512.18	-0.2	466.46	381.80	540.89	513.12	-0.2	1.26	513.17	466.99	379.93	540.87	514.21	519.90	374.92	435.52
Europe Ex. UK (522)	326.04	-0.9	296.94	243.05	344.32	319.20	-0.7	1.68	329.07	299.45	243.63	346.83	321.51	368.32	260.93	308.35
Europe Ex. Eurobloc (382)	98.39	-0.4	89.61	73.34	103.90	100.12	-0.3	2.29	98.82	89.92	73.16	104.15	100.43	103.93	77.40	–
Europe Ex. UK Ex. Eurobloc (180)	95.62	-0.9	87.09	71.28	100.98	96.31	-0.6	1.43	95.48	87.78	71.41	101.66	96.93	109.21	75.16	–
Pacific Ex. Japan (271)	193.96	0.7	176.65	144.59	204.83	198.35	0.5	3.21	192.62	175.29	142.61	203.02	197.42	216.04	128.26	212.94
World Ex. Eurobloc (1912)	110.59	-0.3	100.72	82.44	116.79	109.77	-0.2	1.48	110.90	100.92	82.11	116.89	109.98	111.15	83.09	–
World Ex. US (1645)	216.95	-0.6	197.59	161.73	229.11	189.79	-0.3	1.84	218.19	198.56	161.54	229.97	190.43	221.91	165.95	211.15
World Ex. UK (2052)	312.31	-0.4	284.44	232.81	329.82	282.68	-0.3	1.39	313.56	285.34	232.15	330.49	283.49	314.12	236.11	278.30
World Ex. Japan (1809)	422.20	-0.4	384.52	314.73	445.87	417.44	-0.3	1.60	423.67	385.54	313.67	446.54	418.73	427.99	320.58	381.06
The World Index (2254)	319.14	-0.4	290.65	237.90	337.03	289.52	-0.3	1.52	320.36	291.53	237.18	337.66	290.32	320.63	242.36	287.56

 Latest prices were unavailable for this edition. CONSTITUENT CHANGES 23/3/99: Grupo Financiero Bancomer 'B' to Grupo Financiero Bancomer 'O' (Mexico) and Banacci 'B' to Banacci 'O' (Mexico). Markets closed 22/3/99: Japan & South Africa.

Emerging markets

IFC investable indices

Dollar terms

Mar 22 Market		Day's chg %	% Chg since 31/12/98
Latin America			
Argentina	782.82	-1.5	-1.8
Brazil	254.11	-3.5	-7.8
Chile	507.16	+0.1	+12.4
Colombia[1]	378.18	-0.0	-13.7
Mexico	585.21	-1.6	+21.5
Peru[2]	141.02	-0.6	+4.9
Venezuela[3]	354.40	-0.7	-21.8
East Asia			
China[4]	25.15	+2.4	-3.9
India[7]	78.29	+1.6	+21.9
Indonesia[6]	22.02	-0.4	-9.0
Korea[5]	58.30	+1.3	+6.2
Malaysia	76.94	-2.0	-13.1
Pakistan[8]	107.16	+1.6	+13.3
Philippines	125.52	+0.7	+2.0
Sri Lanka[10]	65.44	+0.1	-20.5
Taiwan, China[9]	129.42	+0.9	+11.8
Thailand	82.74	-0.5	-0.7
Europe			
Czech Rep	43.16	-1.3	-15.0
Greece	812.20	-0.5	+31.1
Hungary[11]	242.55	-1.6	-13.8
Poland[12]	510.21	+0.6	-2.6
Portugal	255.61	+2.0	-12.5
Russia	39.89	-5.6	+70.1
Slovakia	35.54	-0.3	-18.5
Turkey[14]	214.38	+0.1	+46.5
Mideast/Africa			
Egypt	70.65	-1.6	+9.6
Israel	119.50	+0.7	+16.9
Jordan	232.95	-0.2	+7.6
Morocco	157.62	-1.3	-5.0
S Africa[13]	148.63	+0.3	+18.7
Zimbabwe[15]	125.12	+1.5	+18.8
Regions			
Composite	204.73	-0.3	+9.6
Latin America	442.29	-1.8	+5.4
Asia	114.15	+1.1	+6.7
EMEA	132.14	-0.1	+15.6
Europe	172.90	-0.3	+15.5
Easta Europe	60.98	-2.2	+4.9
ME & Africa	82.14	+0.2	+15.9
Comp + Malay	204.81	-0.4	+8.1
Asia + Malay	110.95	+0.5	+2.7

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 5 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1988; (15)Aug 2 1993; (16) July 2 1993.

Latest indices were unavailable for this edition.

NEW YORK STOCK EXCHANGE PRICES

4 pm close March 23

1998/99 High	Low	Stock	Div	Yld. %	P/E	Vol 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]										

- A -

[illegible]

- B -

[illegible]

- C -

[illegible]

- D -

[illegible]

- E -

[illegible]

- F -

[illegible]

- G -

[illegible]

- H -

[illegible]

- I -

[illegible]

- J -

[illegible]

- K -

[illegible]

- L -

[illegible]

- M -

[illegible]

- N -

[illegible]

- O -

[illegible]

- P - Q -

[illegible]

- R -

[illegible]

- S -

[illegible]

- T -

[illegible]

- U -

[illegible]

- V -

[illegible]

- W -

[illegible]

- X - Y - Z -

1998/99 High	Low	Stock	Div	Yld. %	P/E	Vol 100s	High	Low	Close Quote	Ch'ge Prev. Close
63	33¼	Xerox x	0.80	1.5	21	30838	53⅝	51⅞	53	[illegible]
63⅞	56[illegible]	XI Cap	1.76	3.1	9	4489	57[illegible]	57	57	[illegible]
68[illegible]	37½	Xtra Corp			9	257	38[illegible]	38[illegible]	38[illegible]	[illegible]
31[illegible]	22½	Yankee Eng x	1.38	6.0	20	87	22⅞	22¾	22⅞	[illegible]
52¾	27½	York Int x	0.60	1.8	10	1115	35⅛	33⅞	34	[illegible]
24[illegible]	8⅛	Zapata			3	352	9[illegible]	9	9	[illegible]
50	31	Zeneca	0.80	1.9	34	4401	43⅛	42[illegible]	42[illegible]	[illegible]
30½	20[illegible]	Zenith Nat	1.00	4.1	18	84	24[illegible]	24⅛	24[illegible]	[illegible]
8[illegible]	5[illegible]	Zenix Inc x	0.67	11.4		102	5[illegible]	5⅞	5⅞	
14[illegible]	8⅞	ZweigFd	1.08	10.4		588	10[illegible]	10⅛	10⅜	[illegible]
9[illegible]	8[illegible]	Zweig Tot x	0.84	10.2		1029	8⅛	8¼	8¼	[illegible]

Price data supplied by Financial Times Information

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend [illegible] on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Mar 22	Mar 19	Mar 18	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Industrials	9890.51	9903.55	9997.62	9997.62 (18/3/99)	7539.07 (31/8/98)	9997.62 (18/3/99)	41.22 (8/7/32)
Home Bonds	104.24	104.49	104.44	107.17 (9/12/98)	104.13 (25/2/99)	107.17 (9/12/98)	54.99 (1/10/81)
Transport	3275.68	3338.48	3433.07	3686.02 (16/4/98)	2345.00 (8/10/98)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	303.22	303.94	308.16	320.51 (8/10/98)	262.66 (9/1/98)	320.51 (8/10/98)	16.53 (8/7/32)

DJ Ind. Day's High (a) (10158.67) Low (a) (9856.37) (Theoretical)
Day's high 9934.63 (10085.31) Low 9874.97 (9899.94) (Actual)

Standard and Poors	Mar 22	Mar 19	Mar 18	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Composite‡	1297.01	1299.29	1316.55	1316.55 (18/3/99)	927.69 (9/1/98)	1316.55 (18/3/99)	4.40 (1/6/32)
Industrials♥	1556.42	1559.09	1578.98	1578.98 (18/3/99)	1077.40 (9/1/98)	1578.98 (18/3/99)	3.52 (30/6/32)
Financial♥	142.22	142.37	144.64	147.89 (14/7/98)	95.80 (8/10/98)	147.89 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	610.49	610.68	617.61	617.81 (18/3/99)	477.20 (8/10/98)	617.81 (18/3/99)	4.64 (25/4/42)
Amex Comp	717.36	711.87	714.86	763.67 (22/4/98)	563.75 (8/10/98)	763.67 (22/4/98)	524.20 (16/7/98)
NASDAQ Cmp	2395.92	2421.27	2462.98	2510.09 (1/2/99)	1419.12 (8/10/98)	2510.09 (1/2/99)	54.87 (3/10/74)
Russell 2000	393.20	396.58	398.55	491.41 (21/4/98)	310.28 (8/10/98)	491.41 (21/4/98)	123.36 (7/12/93)

■ RATIOS

	Mar 19	Mar 12	Mar 5	Year ago
Dow Jones Ind. Div. Yield	1.80	1.60	1.59	1.57
	Mar 17	Mar 10	Mar 3	Year ago
S & P Ind. Div. yield	1.11	1.12	1.17	1.39
S & P Ind. P/E ratio	40.63	40.71	38.32	29.80

US DATA

■ MARKET ACTIVITY

● Volume (million)	Mar 22	Mar 19	Mar 18
NYSE	662.440	922.200	831.040
Amex	26.300	29.757	24.664
NASDAQ	879.481	1060.48	943.826

NYSE	Mar 22	Mar 19	Mar 18
Issues Traded	3,625	3,559	3,541
Rises	1,213	1,167	1,565
Falls	1,730	1,813	1,356
Unchanged	582	579	630
New Highs	42	60	48
New Lows	104	95	71

■ NYSE TRADING ACTIVITY — Volume : 662,440,000

■ ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
AmOnLne	30,201,900	129⅝	+10⅛
US Filter	17,772,000	30¼	−⅛
Compaq	13,538,700	30⅝	−⅜
MedOne	11,735,100	68⅝	+7⅞
AT&T	7,398,100	77⅛	−1⅛
WrnLam	6,699,600	65⅞	−3⅛
PhMorr	5,580,700	41⅞	+⅞
RiteAid	5,434,200	26⅞	+1⅛
CBS Cp	5,020,100	38⅞	+1⅛
IBM	4,881,900	167¼	−1⅛

■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
DataGn	12⅝	+2⅜	+23.0
Stone&Web	24	+4¼	+21.5
Luxottica	13⅛	+1⅞	+16.5
MedOne	68⅝	+7⅞	+13.0
Downs			
Pep BoysM	15⅝	−2⅛	−12.4
BarrLab	30⅛	−3⅞	−11.5
NiaMM	21⅛	−2¾	−11.2
Safeg'd Sc	60⅝	−7⅜	−10.9

■ NASDAQ TRADING ACTIVITY — Volume :879,481,000

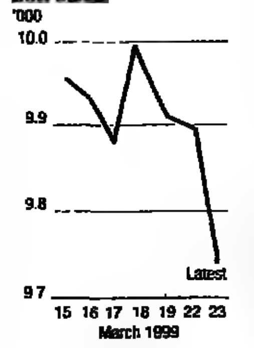
■ ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
DellCmp	54,990,800	37⅝	−2⅛
FORESy	16,899,800	18⅞	+1⅞
Micsft	13,877,200	172⅞	+1⅝
Intel	12,228,600	115⅝	−3⅞
Oracle	11,842,300	27⅛	−⅛
CmcstASp	10,166,700	66⅝	−6⅛
MCIWcm	9,787,200	89⅝	−7⅛
Novell	9,338,400	27⅛	+1⅛
NtwkAs	9,115,700	30⅝	+2⅞
CiscoSys	8,420,000	102⅝	−1⅝

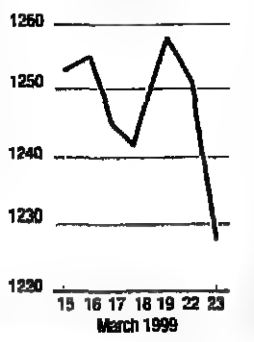
■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
AmtechCp	14⅝	+2⅞	+23.7
Iman Cp	19⅛	+3⅝	+22.2
SecDynm	17	+2⅛	+14.3
ICOS Cp	33⅛	+3⅜	+11.3
Downs			
Newpri Cp	12⅞	−2⅞	−19.0
Lincare	21⅞	−4⅞	−18.2
Gilead	48⅝	−8⅝	−15.2
HutchTech	26⅞	−4⅛	−13.2

Dow Jones
'000



FTSE Eurotop 300



JAPAN

	Mar 23	Mar 22	Mar 19	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Nikkei 225	16019.10	closed	16373.78	17264.3	12880	38915.9	85.25

Day's high 16437.23 Day's low 15989.41

■ TOKYO TRADING ACTIVITY — Volume : 827,250,000

■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
SumiLtt	23,384,000	158	−15
Sakura	21,204,000	359	−27
MBTrB	16,518,000	194	−1
NpStl	15,498,000	248	+6
FujiBk	15,049,000	735	−15
FujiCo	14,888,000	102	+12
NikkoS	13,855,000	568	−9
Nomura	13,559,000	1440	+65
NKK	11,736,000	79	−2
BTelM	11,423,000	1710	+38

■ BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Seiyu	614	+93	+17.9
FujiCo	102	+12	+13.3
SumiMt	158	+15	+10.5
Shimizu	2470	+230	+10.3
Downs			
HanoMt	511	−69	−11.9
Sankyo	2360	−315	−11.8
SumOsa	245	−31	−11.2
ToyoSk	2180	−220	−9.2

FRANCE

	Mar 23	Mar 22	Mar 19	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
CAC 40	4079.47	4197.06	4218.65	4388.48	2862.54	4388.48	984.61

Day's high 4177.63 Day's low 4078.80.

■ PARIS TRADING ACTIVITY — Volume : [illegible]

■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Alstom	3,982,333	25.8	+0.95
Vivndi	1,915,928	228	−8.5
FrTele	[illegible]	[illegible]	−3.45
Axa	1,242,840	122.8	−5.4
ElfAqu	867,839	130	−5.2
AirFrn	846,239	16.04	+0.15
BNP	[illegible]	77.05	−1.45
Renault	794,655	32.1	+0.61
Alcatel	762,249	106	−4
RhonPA	736,777	43	−0.4

■ BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Essilr	304	+23	+8.2
GzEaux	40	+2.2	+5.8
ErBSay	136	+6	+4.6
Alstom	25.8	+0.95	+3.8
Downs			
LegrdPI	110.2	−7.2	−6.1
Canal+	257.2	−16.8	−6.1
Lfarge	80.5	−4.6	−5.4
GrdVsn	22.25	−1.25	−5.3

GERMANY

	Mar 23	Mar 22	Mar 19	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
DAX	4915.03	5027.06	5099.48	6171.43	3896.08	6171.43	931.18

Day's high 5016.22 Day's low 4897.75

■ FRANKFURT TRADING ACTIVITY — Volume . (u)

■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
DmlrCh	515,521	81.25	−3.1
BASF	382,162	33.65	−0.55
Lufthn	342,303	20.3	−0.75
Dt Bk	310,048	49.9	−1.8
Cmmzbk	261,349	27.7	−0.65
Bayer	261,035	35.05	−0.45
Siemns	257,028	61.7	−0.3
MAN	232,845	26.12	−0.38
Veba	208,047	51.3	−2.6
Dt Tel	205,323	37.55	−0.1

■ BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Rustgs	272.5	+116.6	+74.7
ZnFpap	53.5	+3.5	+7.0
DidWrk	78	+3	+4
Varta	120	+4	+3.4
Downs			
Dt Bm	43.6	−3.7	−7.8
Drgck	11.8	−0.65	−5.2
KlockW	62.5	−3.3	−5.0
Veba	51.3	−2.6	−4.8

UK

	Mar 23	Mar 22	Mar 19	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
FTSE 100	6060.5	6152.8	6163.2	6335.7	4648.7	6335.7	986.9

Day's high 6153.1 Day's low 6049.6

■ LONDON TRADING ACTIVITY — Volume : 1,167,100,000

■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Shell T&T	28,743,530	406½	−15¼
P&O Dfd	18,856,840	860½	+45
BP Amoco	17,934,500	1002	−1
BG	17,158,090	343½	−6
ASDA	16,647,950	151	+¼
Pilkington	15,377,260	65½	+2
Centrica	14,919,450	109¾	−2½
Tesco	14,206,980	188	+2.0
Scoot.com	13,771,640	30	+½
Brit.Airways	12,986,180	410	−12

■ BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Tradepoint	36	+17½	+94.6
Ftch	58	+21¼	+58.3
Utd Overseas	21	+4	+23.5
Jarvis Hotels	168½	+28½	+20.1
Downs			
Capital Inds	38½	−13½	−27
MSB Int'l	172½	−52½	−23.3
Arcolectric	44	−9¾	−18.1
Calefain	40	−7½	−15.8

INDEX FUTURES

■ S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	1308.50	1311.20	−	1312.30	1284.20	85,181	357,436
Sep	1302.80	1323.80	−	1305.50	1302.80	100	4,553
■ Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	16290.0	15980.0	−370.0	16350.0	15880.0	26,593	200,105
Sep	16300.0	15930.0	−370.0	16300.0	15920.0	5	3,782

Open interest figures for previous day

■ CAC-40	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Mar	4184.0	4085.0	−117.0	4195.0	4083.0	76,715	135,637
Apr	4171.0	4087.5	−117.0	4193.0	4090.0	9,494	8,689
■ DAX							
Jun	5016.0	4889.0	−170.0	5054.5	4877.0	57,141	248,645
Sep	5065.5	4924.0	−172.5	5088.5	4923.0	51	866

■ OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Mar	708.50	712.50	−2.50	718.50	708.50	42,160	96,018
Apr	708.50	712.50	−2.50	717.76	708.50	32,156	24,055
■ EUREX							
Jun	7060.0	6956.0	−133.0	7122.0	6947.0	23,162	103,251
Sep	7094.0	7004.0	−88.0	7094.0	6992.0	88	3,667

WORLD MARKETS AT A GLANCE

Country	Index	Mar 23	Mar 22	Mar 19	1998/99 High	1998/99 Low	% Yield	% P/E
Argentina	General	16917.71	17039.00	17267.84	22488.50 23/3/98	12809.10 10/9/98	4.01	13.7
Australia	All Ordinaries	2987.6	2985.5	2984.5	2992.20 16/3/99	2458.20 1/9/98	2.8	23.8
	All Mining	575.6	575.6	573.8	713.10 23/4/98	469.80 31/8/98		
	Stocks rallied in afternoon trade as the All Ordinaries index finally – but temporarily – broke through resistance at 3,000.							
Austria	ATX Index	1171.23	1189.34	1205.19	1628.56 26/5/98	882.09 1/10/98	1.97	12.9
India	BSE Sens.	3757.50	3713.18	3672.63	4280.86 21/4/98	2764.16		
	N K P DMX 100	751.95	749.79	745.48	815.62 21/4/98	657.98		
	Recently underperforming cyclicals rallied although gains pruned towards end of session.							
Indonesia	Jakarta Comp.	394.81	392.28	394.21	554.10 2/2/98	258.83		
	Investors focused on dollar earning companies on hopes they would announce higher 1998 profits.							
Ireland	ISEQ Overall	5373.49	5430.42	5381.15	5471.61 21/4/99	3748.11		

THE NASDAQ-AMEX MARKET GROUP

4 pm close March 23

AMEX

4 pm close March 23

EASDAQ

STOCK MARKETS

Fretting bears run out of reasons to buy

WORLD OVERVIEW

The bull run of global equity markets continued to lose its head of steam yesterday as investors struggled to find a reason to push share prices higher, *writes Philip Coggan*.

The escalation of events in Kosovo, with Nato forces apparently ready to begin bombing, did nothing to enhance confidence.

Wall Street was sharply lower from the start of trading, with investors apparently discouraged by the repeated failure of the Dow Jones Industrial Average to close above 10,000.

By the time European markets closed, the Dow had *slipped* more than 150 points, and the technology-heavy Nasdaq index was down more than 2 per cent.

"You have seen a big sentimental capitulation with bears throwing in the towel. That does leave the market looking vulnerable especially *when the valuation of* equities relative to bonds is looking so stretched," said *Albert Edwards, global strategist* at Dresdner Kleinwort Benson.

I/B/E/S, the information company, says that its model, which compares bond yields with the forward earnings yield on the S&P 500 index, indicates that US equities are around 27.8 per cent overvalued.

Worries that Wall Street might be overdue a *correction weighed on Asian and* European markets. The Nikkei 225 average fell 2.2 per *cent, nearly dropping back* below 16,000, while the Hang Seng index in Hong Kong slipped under 11,000.

That latest round of European deals – a joint venture between ABB and Alstom, and the Norwegian banking merger between Den norske Bank and Postbanken – failed to revive the continent's bourses. The Dax in Frankfurt fell more than 3 per cent, *slipping below 5,000* and the CAC-40 in Paris dropped 2.8 per cent.

Latin American markets which have staged a strong recovery this month, followed Wall Street lower in early trading.

However, Paul McNamara of Bank Julius Bär, warned: "Brazil is bust in current conditions. Current interest rates are 45 per cent and effective real rates are almost 30 per cent even on [International Monetary *Fund] inflation projections*. The country has no access to foreign capital markets so *Brazil's government* debt is on an unsustainable path, especially as almost the entire debt stock is at floating interest rates."

Deutsche Bank said Brazil remained fragile "until the effectiveness of the government's fiscal programme is fully proved, wage corrections and indexation mechanisms have been avoided, and external financing is procured".

Wall Street rally brought down to earth

AMERICAS

US shares sold off in early trading, sending the Dow Jones Industrial Average below the 9,800 level on cautious sentiment in the high-tech and financial sectors, *writes John Labate in New York*.

After three runs at the 10,000 level, investors have decided to cut some *key sectors* down to size after their dramatic run in recent weeks. While the sell-off was widespread, it was not deep, given the high levels that stocks have hit lately.

The selling was driven more by widening concerns about stock valuations than by news events. And hovering over the market was the threat of air strikes on Kosovo.

By early afternoon the Dow was off 134.87, a loss of 1.4 per cent, at 9,755.64. The Standard & Poor's 500 index had lost 22.37 or 1.7 per cent at 1,274.64.

Leading the blue-chip sector lower, Coca-Cola was down $2⅞ at $65 1/16 after Merrill Lynch lowered its first-quarter earnings per share estimate. Other heavy losers included financial services leader Citigroup, off $1 13/16 at $61 11/16.

High-tech shares pulled back, with computer makers, chip producers, and internet *companies all hit. The* Nasdaq composite index lost 1.9 per cent or 44.41 at 2,351.53. Dell Computer continued to sell off, down $ 11/16 at $37 1/16, and Apple Computer was marked down $1¼ to $33 9/16 on renewed concerns about the sector. Cabletron, the computer networking producer was off more than 12 per cent at $8 13/16.

There were a handful of internet stocks trading on the upside, including retailer Egghead.com, up 14 per cent or $2 11/16 at $21 after analysts at Prudential Securities started the company with a "strong buy" rating.

The banking sector was uniformly down, with Bank *of New York off $1⅛ at $36⅞* after it agreed to buy an investor services business from Royal Bank of Scotland in a deal valued at $800m.

Paper company Bowater was off 6.7 per cent at $42⅝ after it announced new plans to cut production.

As stocks sold off, bonds gained ground despite the launching of the largest corporate debt issue ever, with AT&T's $8bn issue. By early afternoon the benchmark long bond was ½ higher at 95 13/16, yielding 5.562 per cent.

TORONTO traded lower at midsession as traders took profits in the oil and gas sector and as banking stocks slumped. The TSE-300 composite index lost 107.67 to 6,488.90 in volume of about 50m shares.

Nine of the exchange's 14 sub-indices opened in negative territory, led by a 1.5 per cent slide in the oil and gas group and a 0.9 per cent fall in the heavily weighted financial services group.

In the oil and gas group, Imperial Oil lost 40 cents to C$28.15 and Renaissance Energy fell 90 cents to C$18.

The banking group, which makes up more than 20 per cent of the overall TSE-300, showed losses. Royal Bank of Canada was off C$1.40 to C$70.15.

Dow casts shadow over Dax

EUROPE

Sharp losses on Wall Street dragged an already weak **FRANKFURT** 3.3 per cent lower, pulling the Xetra Dax *index back below the 4,900* level. The index closed with a loss of 164.19 at 4,870.49 as the threat of Nato air strikes against Kosovo added to the uncertain mood.

Merger fever provided some early impetus to the telecommunications sector after US cable television operator Comcast agreed to buy MediaOne in a $60bn stock and debt deal.

Deutsche Telekom picked *up to an early €38.35, with* the rise also fuelled by Monday's news that the company had agreed to allow rival Viag Interkom to use its mobile phone network. However, the stock was not immune to the subsequent malaise and the shares *closed 15 cents higher at* €37.70.

The FTSE Eurotop 300 index fell 22.91 or 1.83 per cent to 1,228.82. See Euro Prices page.

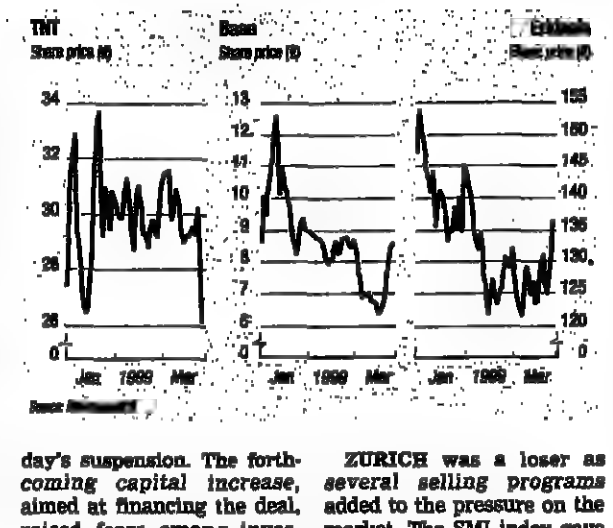
Banks were weak as the merger speculation that drove their rise on Monday ran out of steam. Deutsche Bank fell €2.27 to €49.56, Dresdner Bank gave up €1.45 to €36.15 and Commerzbank lost 70 cents to €27.50.

Linde gave up €14 to €533 after the company confirmed 1998 results, presented 1999 forecasts and said it planned a share split and capital increase.

PARIS succumbed to profit-taking in blue chips, *dragging the CAC-40 117.5 or 2.8* per cent lower to 4,079.47.

Elf Aquitaine, which had gained around 32 per cent from mid-February levels, fell €5.20 to €120 as investors took profits. France Telecom dropped €3.45 to €75.20.

Vivendi, which had *announced its plan take over* US water treatment company US Filter, ended down €8.50 at €228 following Monday's suspension. The forth*coming capital increase*, aimed at financing the deal, raised fears among investors. But analysts remained bullish for the medium term, with Deutsche Bank raising its price target for Vivendi shares to €290 from €260.



Alstom rose 95 cents to €25.80 following the announcement of a power generation joint venture with Swiss-Swedish engineering group ABB.

AMSTERDAM featured a 4.5 per cent surge in Gucci as continued merger speculation provided impetus to the luxury goods group. The shares closed up €3.30 at €77 in spite of a downgrade for from ING Barings shortly before the close.

The broad market, however, went the way of its neighbours with the AEX index finishing 11.59 or 2.1 per cent lower at 532.63.

Nedlloyd soared €3.30 or 18.6 per cent to €21, propelled by news that the UK's P&O planned to list its 50 *per cent stake in the P&O* Nedlloyd container shipping joint venture.

Baan put on 5 cents to €8.50. The shares were lifted by news that the software group had appointed James Mooney as new chief financial officer.

TNT Post group lost €2.30 or 8.1 per cent to €26.20, hurt by a disappointing 1999 outlook.

ZURICH was a loser as *several selling programs* added to the pressure on the market. The SMI index gave up 140.0 to 7,013.6.

ABB was in the spotlight, rising to a year's high of SFr2,010 before turning back to close SFr33 lower at SFr1,936 after announcing the merger of its power-plant business with the French conglomerate Alstom.

ATHENS nursed deep losses as sentiment was dented by the prospect of military strikes in Kosovo. The general index dropped 121.85 or 3.2 per cent to 3,637.80.

Financials also turned back after a strong start. CS Group, higher initially as *Merrill Lynch raised its* price target, closed SFr3.50 lower at SFr282.50. UBS lost SFr13 to SFr470.

MILAN saw banks hit by profit-taking after the recent takeover euphoria and the real-time Mibtel index finished 395 lower at 24,641.

Banking stocks lost steam *after the wave of consolidation* that saw UniCredito bid for BCI and San Paolo-IMI bid for Banca di Roma.

BCI shares, which rallied as much as 3.4 per cent after gains of 4.9 per cent on Monday, ended 0.5 per cent higher at €7.59 having visited negative territory shortly before the close.

Dealers said reports that merchant bank Mediobanca was preparing a counter-*offer of its own* for BCI had supported BCI shares earlier in the session.

Mediobanca, which jumped 6 per cent on Monday, ended 3.6 per cent down at €12.89.

Banca di Roma, the most heavily traded shares on the bourse with almost 61m changing hands, finished 2.4 per cent lower at €1.48.

UniCredito lost 2.62 per cent to €4.88 and San Paolo-*IMI fell* 1.7 per cent to €14.89.

MADRID put in a lacklustre performance in response *to fears* of poor first-quarter results and losses on Wall Street. The general index lost 18.14 or 2.05 per cent at 866.91, with volume staying thin through the day.

Written and edited by Michael Morgan, Florian Gimbel, Peter Hall and Paul Gregan

MARKET FOCUS

Europe unmoved by bullish signs

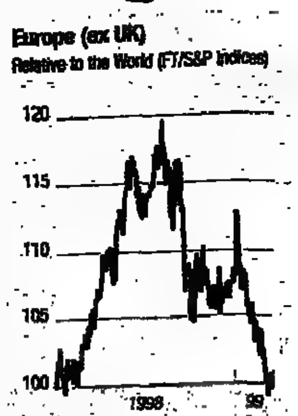
US and UK stock markets may have reached new highs this month but European bourses are struggling to hit new ground. The Dax in Frankfurt, at 6,171 last July, *fell below 5,000 yesterday*.

Since the start of August, the FT/S&P Europe (ex-UK) index has underperformed the World index by 15 per cent in dollar terms while Germany has lagged by 23 per cent. This is partly because of the euro's poor performance against *the* dollar. Traditionally a weak currency has been positive for European markets because of the boost to export prospects. But not this time.

Another factor which might have been expected to prop up European share prices is growing evidence of corporate activity. The hostile bid by Olivetti for Telecom Italia, BNP's double French banking *bid, the* twin takeovers in Italian banks: all are signs that old corporate structures are breaking up. In the long run, it is hoped a more Anglo-Saxon, shareholder-centred system will be created.

However, these bullish signals have been more than offset by a worsening outlook for growth and a downturn in fund inflows. Unlike the US economy, which continues to motor along, the economies of core Europe have been spluttering. German gross domestic product fell 0.4 per cent in the fourth quarter of 1998 and the recent survey of Ifo business sentiment indicates the outlook continues to be gloomy.

The German economy has a heavy weighting in manufacturing and seems to have suffered more from the problems of emerging markets than the US. And reviving the economy could be problematic. The government's fiscal leeway is limited by *the stability pact* and the European Central Bank has proved resistant to cutting interest rates.



European markets have also suffered from *a deterioration* in liquidity. According to Richard Davidson, European strategist at Morgan Stanley Dean Witter, there was a heavy inflow of money into European equity funds in the first half of 1998 when markets rose sharply.

However, the market collapse between July and October seems to have unnerved European retail investors less versed in the equity culture than the Americans and less enthusiastic about "buying the dips".

At the same time, according to Ian Harnett, European strategist at BT Alex Brown, European markets may have been at the wrong end of a portfolio shift by institutional investors. *"Asia looks* like it's recovering, so for those investors who want to re-enter those markets, the question is whether investors take money out of the US or Europe. With the US so strong, they have to choose Europe," he says.

But these negative *effects* may have gone so far that they have created an investment opportunity. According to Mr Davidson, European markets are at a 35 per cent discount to the US on a price-to-cash earnings basis, compared with the average 20-25 *per cent discount* of the last 10 years.

Philip Coggan

São Paulo drops again

SAO PAULO was weak at midsession as investors sold off holdings in response to the weak trend in international markets.

The Bovespa index was 142 lower at 10,385, adding to Monday's 2.8 per cent tum*ble which was led by heavy* profit-taking in electrical utility issues.

Among the utilities which rallied last week on renewed optimism for Brazil's privatisation programme, Cesp fell 2.5 per cent to R$31, Light Servicios gave up 1.8 per cent to R$135 and federal power holding Eletrobrás gave up 2.2 per cent to R31.60.

MEXICO CITY was lower at midsession in parallel *with the sharp retreat on* Wall Street. The IPC index weakened 45.27 points to 4,670.03.

Benchmark stock Telefonos de Mexico was down 0.52 peso at 30.40 pesos.

Jo'burg slips on profit-taking

SOUTH AFRICA

Johannesburg was held back by weaker international markets although gold *stocks broke higher* as the bullion price crept up and the rand softened.

Profit-taking also emerged after Friday's strong run, which preceded the three-day holiday weekend.

The overall index finished 27.5 weaker at 6,547.4 and industrials lost 56.9 at 7,654.1. However, the new, slimmed-down gold index put on 33.3 to 2,898.3.

Paper producer Sappi surged 8.4 per cent to R27.10, boosted by perceptions that commodity prices would improve as Asian economies recovered.

Tokyo falls despite foreign buying

ASIA PACIFIC

Profit-taking and worries about the market's recent surge dragged **TOKYO** lower in spite of a continued flurry of foreign buying, *writes Alexandra Harney*.

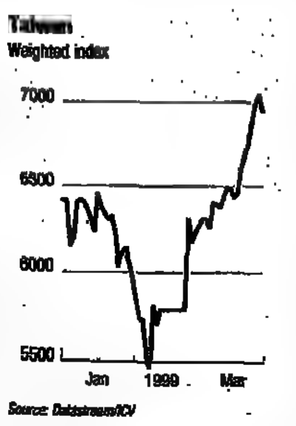
The Nikkei 225 index tumbled 359.66 or 2.2 per cent to 16,019.1, erasing some of the gains from a 660-point advance last week. The benchmark index moved between 15,988.41 and 16,437.23 during the day.

Analysts said lower share prices in New York also hurt Japanese electronics makers, while foreign interest in telecoms drove other stocks to record highs.

The financial sector, including banks and brokers, recorded the heaviest volume on hopes of further restructuring in the sector. Sakura Bank slid Y27 to close at Y359, and *Fuji Bank* lost Y15 to Y735. Nomura Securities, the leading broker, added Y65 to Y1,440. The Industrial Bank of Japan gained Y36 to Y895.

Exporters were mixed. Nissan, which is in talks with Renault about a capital *tie-up, gained Y6 to Y435* amid expectations about an injection of cash from the French carmaker.

Honda Motor climbed Y80 to Y5,430, while Toyota slid Y80 to Y3,280 after reporting



disappointing February sales figures over the weekend.

Sony, the electronics and entertainment group, jumped Y40 to Y11,400. Toshiba lost Y3 to Y830.

Nippon Telegraph and Telephone, the leading communications group, jumped Y20,000 to Y1,160,000, and NTT Data surged Y100,000 to a record high of Y1,050,000. NTT DoCoMo added Y210,000 to close at Y6,150,000.

Volume on the first section shrank from 867m shares on Friday to 827m shares – an unusually high volume that reflects the end of the financial year next week. Declining issues outnumbered advancing stocks 727 to 502, with 97 shares ending unchanged. The Topix index of first-section shares slipped 6.05 to 1,263.71. The Nikkei 300 lost 1.36 to close at 254.3, and the Osaka index slid 85 to 16,716.

TAIPEI ran into profit-taking as the weighted index pushed above the 7,000 point level. The index turned back from a high of 7,133.03 to close 97.75 lower at 6,945.45.

Analysts said the profit-taking emerged in spite of persistent buying by foreign funds, signs of an economic recovery and reports that Morgan Stanley had raised Taiwan's weighting in its Asia Pacific portfolio.

SEOUL pulled out of nega*tive territory* as foreigners and investment trusts targeted blue chips. The composite index closed up 6.6 at the day's high of 614.34.

Foreign interest was concentrated on some old favourites including Kookmin Bank which jumped Won1,150 or nearly 10 per cent to Won12,800. But Samsung Electronics lost Won500 to Won99,000, burdened by *institutional profit-taking*.

MANILA was higher on foreign demand for blue chips and as domestic sentiment was boosted by falling local interest rates. The composite index climbed 25.48 or 1.3 per cent to 2,043.97.

Turnover of almost 2bn *pesos was nearly double the* previous session's trade. Property and bank stocks, expected to reap the biggest benefits from lower interest rates, were in demand.

The property index was up 2.1 per cent. The banking and financial index rose 1.2 per cent.

HONG KONG blue chips recovered from their lows but still closed easier while China-linked stocks extended their rally on rotational buying. The Hang Seng index fell 66.23 to finish at 11,041.01 after hitting a low of 10,905.04.

Red chips and H shares continued to find strong demand on hopes that Chinese premier Zhu Rongji's visit to the US next month could seal a deal for China to enter the World Trade Organisation.

The red-chip Hang Seng China-Affiliated Corporations index surged 23.04 or 2.8 per cent to 850.91 while the Hang Seng Chinese Enterprises index of H shares rose 8.88 or 2.4 per cent to 387.42.

BOMBAY traded higher in a broadly based rally although gains were pruned towards the end of the day. The BSE-30 index put on 44.32 to 3,757.50 but pulled back from a high of 3,784.81.

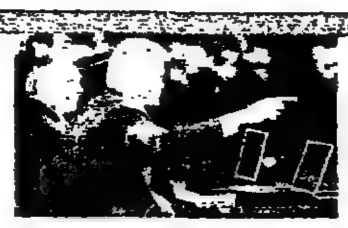
Speculative local demand focused on recently underperforming *cyclicals such as* the cement, paper, tea and aluminium sectors.

ELECTRONIC BUSINESS

WEDNESDAY MARCH 24 1999

Business Solutions Series, next issue April 28, 1999

Financial services
Cherry pickers move online: Page 6



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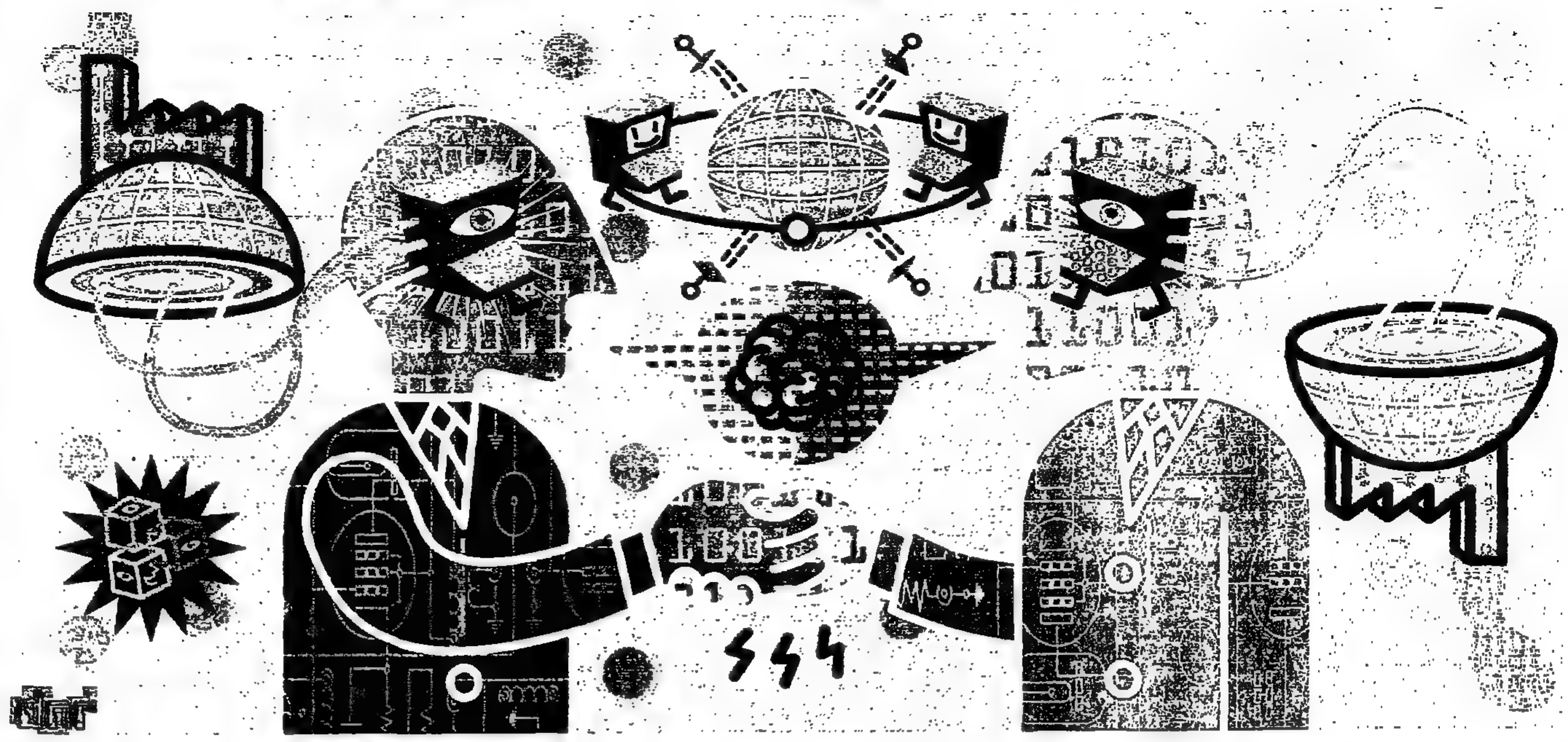


The Internet is changing the face of business around the world so rapidly that many companies find it hard to keep up.

The implications of this electronic upheaval are enormous, though the impact is not yet evenly distributed. But it is certainly true in the US – and to a lesser extent in Europe – that if a company of any size is not thinking of how the Internet can be used to make its business more efficient, its competitors undoubtedly are.

Since the Internet is a global network, those companies that establish their online brands most rapidly will be able to reach the customers of their competitors in other countries more easily than ever before.

This global communications medium with its standard protocols and applications, supporting virtually any type of computer system and operating system, has the potential to revolutionise the entire business process. While many claim the Internet has been over-hyped, the reverse is closer to the truth when it comes to business applications.

Electronic commerce, or e-commerce, is the most visible aspect of e-business, but it is just one segment of a larger whole. E-business means: better procurement and supply chain management; making sales teams in the field more effective; the ability to easily outsource functions such as accounting; remote access to mission critical systems; linking management teams in different locations; being able to quickly locate the lowest cost suppliers; improved customer services; unprecedented collection of customer information; and more effective management of remote manufacturing sites.

With a future Internet offering much higher bandwidth, capable of running across power lines to reach embedded systems and stretching out through wireless connections to billions of electronics devices, applications that have yet to be invented will mine new areas of business efficiency.

With previous investments in information technology, the core problem has always been to justify the cost. The rate of return on IT investment was difficult to calculate; if a 10 or 20 per cent return was achieved, a company was doing very well.

But applying Internet technologies to business processes yields astounding returns. Companies building intranets, for example, are finding that their investments are being paid back in months. Similar results are reported for many other applications.

The big IT groups are striving to build a powerful presence in this fast evolving market. IBM has established a strong image as a provider of electronic business solutions through its "e-business" campaign. Its lead is being challenged, however, by new products from Microsoft, Hewlett-Packard, Oracle and others.

Microsoft recently announced new server software and related products to simplify the setting up of e-commerce systems. Hewlett-Packard is putting a big effort behind its "e-services" focus with new products and online e-commerce services.

But there is more to e-business than just selling over the Internet. John Parker, vice-president of Internet Technology at IBM, says: "Companies can have real-time input into their central database from remote locations, monitor production lines with full-screen streaming video, allow executives to engage in video-conferencing, and use full-screen multimedia communications for distance learning."

Competitors sharpen up their weapons for the digital contest

In the age of e-business and the Internet, companies around the world must be ever more watchful of the online strategies being followed by their fleet-footed rivals, writes **Tom Foremski**

But producing the e-business applications that corporations need requires more bandwidth and new types of applications. "Bandwidth is being added all the time, but what is really needed is the ability to discriminate between the packets of information carried on the Internet," says Mr Patrick.

The Internet carries packets of information defined by the Internet Protocol. These IP packets are created and treated as equal. But there is currently no way to discriminate between different IP packets.

This is why using the Internet to place telephone calls or for video-conferencing produces a poor quality effect with garbled sound and jerky video images. Those real-time packets of information have to jostle for bandwidth with less time-sensitive packets such as those carrying e-mail.

IBM, along with other computer and networking companies such as Cisco Systems, is working on what is called Quality of Service technology that will guarantee specific levels of quality on the Internet. Soon, companies will be able to pay more money to ensure their packets arrive at their destination first.

QoS technology is being tested on the high speed private Internet2 network, part of which went live recently, linking major research centres in the US.

The bandwidth problem continues to be a limiting factor in many e-business applications. But US-based Akamai Technologies believes it may have a solution by adding what it calls an extra communications layer on top of the Internet. Founded last year by top mathematicians from the Massachusetts Institute of Technology (MIT), Akamai has installed hundreds of servers worldwide connected to the Internet in a service it calls FreeFlow.

The idea is to dynamically distribute the content of a client web site closer to where its users are located. So instead of a user receiving a web page from a company web server located thousands of miles away, FreeFlow will replicate the web page closer to large groups of users; they will thus receive the web page from a local server and avoid traversing larger portions of the congested Internet. Using special mathematical formulae, FreeFlow calculates the fastest route across the Internet.

"With FreeFlow, corporations can use our network to deliver content-heavy pages to customers at a faster rate, while the return e-commerce transaction goes through their own secure web servers," says Paul Sagan, Akamai's chief operating officer.

FreeFlow also offers an additional e-business benefit. It protects web sites from shutting or slowing down if they have too many visitors. If a company offers a special online promotion, for example, and is flooded with more visitors than expected, it risks alienating millions of customers with a slow response. FreeFlow can detect a sudden spike in visitors and dynamically replicate web site content among its servers, thereby spreading the load.

With the spreading global interest in e-commerce, barely a week goes by without yet another study from a market research or consulting firm predicting ever higher e-commerce revenues. Yet this aspect of e-business is not only the most high-profile, but also the riskiest, simply because the business models have yet to be proven profitable in the consumer area.

Business-to-business e-commerce is profitable, with companies such as Dell Computer, Apple Computer, Cisco Systems, Intel and others moving billions of dollars in products through their e-commerce sites.

But in the consumer area, the business model needs more work. Amazon.com, the online book seller, for example, continues to report larger losses each quarter on ever larger sales and does not expect to produce a profit for at least another two or three years.

According to Giga Information Systems, the US IT consultancy, companies setting up e-commerce systems will not see much pay-off in the short term. It predicts that the number of profitable e-commerce ventures over the next 18 months will be just 5 per cent of the total. This means that companies will have to refocus their efforts on goals other than revenue generation.

E-commerce will play an increasing role in business, "but even the best known start-ups aren't profitable yet and only a few Fortune 100 companies have profitable Internet commerce operations," says Giga analyst Erica Rugullies. "In the meantime, early adopters of electronic commerce have an opportunity to build an infrastructure that dramatically reduces the costs of doing business while improving relationships with customers and suppliers."

Even though it is difficult to make money through e-commerce, many companies try. UK based Gifthouse, for example, recently set up a web site to sell gifts such as candlestick holders and related items online. Despite an attractive web site, it has had few online sales.

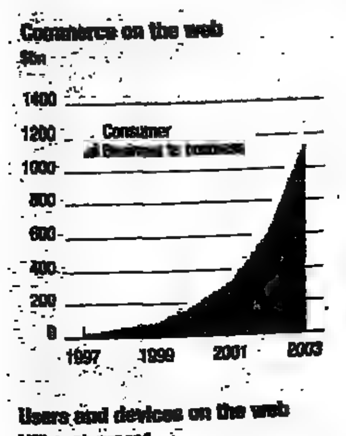
"It's one thing having a functioning web site – the problem is in attracting people to the site. It takes a considerable amount of money to promote the site and also handle all the other operations," says Gifthouse co-founder Debra Nottage.

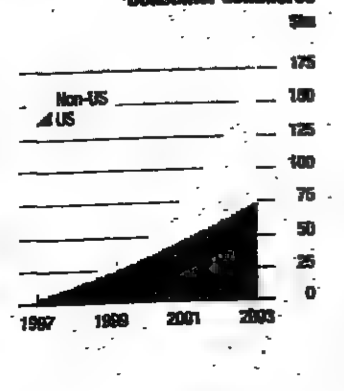
Many companies do not realise that setting up an e-commerce web site is effectively the same as launching a mail-order catalogue operation. The web site becomes the printing press, albeit a very agile one, that can respond in real-time to inventory levels, pricing, and customer preferences. But the back-end operations are essentially the same as those of a conventional mail-order company, requiring a warehouse, shipping department, customer service representatives and other facilities.

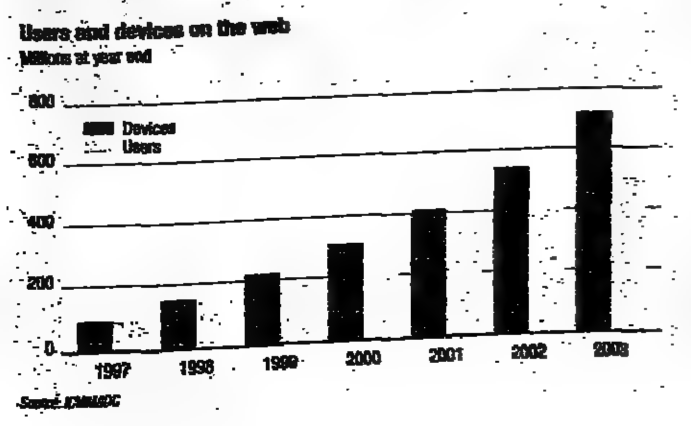
Some observers believe that e-commerce will truly take off when it can reach larger numbers of Internet users; nor should these have to be personal computer users. In the US, about half of households have PCs, but in Europe and other parts of the world, PC penetration is at lower levels.

"I think that it makes much more sense for e-commerce to occur over cellular phones, especially in Europe where there are many more cellular phone users than there are PC users," says David Birch, director of UK-based consultancy Hyperion.

US and European communications companies are already developing the wireless Internet technologies that will soon make this possible. Thus the future for successful mass market e-commerce may well lie in the future smart phone device, able to order goods and services at the touch of a button – without a PC in sight.







THE SUPPLY CHAIN by Mark Vernon

Livelier image for a low-profile task

The business-to-business procurement sector may lack the glamour of other business operations on the web, but it is helping to push electronic commerce across new frontiers

Internet-based procurement has been referred to by some experts as necessary but not sufficient for genuine electronic commerce. But there is more to this relatively unglamorous online activity than meets the eye.

"Companies soon realise that more is involved than 'mere' procurement. It is really about complex relationship management," says Chris Webster, business development manager for the integrated supply chain at Cap Gemini, the European computer services group. Moreover, revolutionary e-phenomena such as "metamediaries" are establishing themselves first in precisely this area.

The business-to-business electronic commerce arena is hectic. New services are being announced daily; British Telecom and the US software supplier Commerce One *(see article on page 3)*, for example, have just completed a deal in their bid to establish a key UK electronic market place for indirect goods.

Forrester, the research group, recently upgraded its predictions for online trading: it now expects $57bn in Europe by 2001.

In the US, Forrester researchers predict that the market will grow to $843bn in 2002, exceeding 9 per cent of all business sales by 2003 in every sector.

However, Internet buying from suppliers is still nascent in Europe. "We struggled to unearth even 20 firms beyond the pilot phase," says Joe Sawyer, a Forrester analyst and author of the report *Net Buying Benefits*. But online procurement can, nonetheless, be a useful and popular way of dipping a toe into the e-business market.

"The acceleration of Internet purchasing will combine with sell-side activity to fuel a virtuous circle of growth in business-to-business transactions over the net," Mr Sawyer says.

It is this potential for growth that makes online procurement interesting, since it exemplifies a network effect in which the value of participating increases dramatically as more and more companies join in.

One of the largest online procurement pilots to date was unveiled by the State of California at the end of last year. The California Statewide Procurement Network is an initiative to reduce the costs of the more than $4bn in goods and services acquired each year.

CSPN will itself cost $14m, deploying US vendor Ariba's Operating Resource Management System, coupled with the existing PeopleSoft enterprise resource planning solution and the Visa purchasing card payment system known as CalCard. "Ariba ORMS will make it easier for our employees to get the goods and services they need to do their job, while at the same time delivering significant reductions in the costs of those operating resources and making the state more efficient," says Chuck Grady, deputy director and chief procurement officer of the department of general services. Savings could reach [illegible].

New relationships

However, this project is about more than just technology and cost reductions. Andersen Consulting is managing the substantial changes to inter-company procurement relationships that will result, involving more than 2,000 large and small suppliers who do business with the state.

Tom Carroll, an associate partner with Andersen Consulting, estimates that a third of the overall effort will be used in negotiating these issues. Assuming the project succeeds, the application will be deployed so that not only the state, but also cities, counties and universities, can requisition products and services through the CSPN system.

California is not the first US state to explore online procurement possibilities. Massachusetts' Multistate Electronic Mall is piloting a project in which Idaho, New York, South Dakota, Texas and Utah share suppliers under a system known as Open Buying on the Internet.

Some 200 transactions a week is the current rate, although the complexity of the change management element is even more significant than with CSPN, since the collaboration erects the hurdle of different regulatory regimes between states. The harmonisation of legislation could be the most profound outcome.

But the impact of online procurement will go further than such examples. It will be a key driver to deeper changes all along the supply chain. "Consider Nissan's 10-day car delivery promise," says Cap Gemini's Mr Webster. "They can make this offer because they are able to implement far more than just-in-time parts delivery. It necessitates being able to see further back down the supply chain than has been possible before."

The disciplines of electronic commerce have enabled the Japanese vehicle concern to substantially reduce latency and inertia in the supply chain. "The radical break is that they no longer have to increase costs in order to increase service," Mr Webster adds. "Further, they are able to see inside their suppliers' systems to such a degree that they are able to make promises to their customers on that basis."

If not quite manufacturing to order, Nissan is able to modify existing orders or insert new ones as they come in. Even that was unthinkable just a few short years ago for an operation as complex as a car assembly line.

Another area in which Internet procurement is having a profound impact is with web portals. The phenomenon is the birth of the "metamediary" and it is well illustrated by one US example, MetalSite. This is a web-based "market-space" for the online purchase of metals products from suppliers.

But it aims to go further, enriching the relationship between suppliers and customers by providing news, information and online forums. It also tackles traditional supply issues. In an industry that typically has long lead times on delivery, MetalSite offers a real-time service for buyers to obtain steel quickly and for producers to rapidly dispose of it, passing back the savings along the line. The technology is based upon US vendor TRADE'ex's Procurement for the Marketplace solution.

It is hard to under-estimate the commercial implications of changes in the electronic supply chain. As more and more organisations learn to manage the increasing number of variables affecting price and service, and the boundaries of trust between companies are redrawn, industry leaders will transfer these early e-business explorations to more complex processes such as customer service. Procurement has never looked more interesting.

BETTER BUSINESS COMMUNICATIONS: XML SOFTWARE LANGUAGE by Geoffrey Nairn

Making sense on the Internet

Companies doing business online need to be able to exchange complex information more effectively and reliably

One hurdle which must be overcome for the widespread adoption of business-to-business e-commerce is the immense variety and complexity of trading relationships. But thanks to the growing support for Extensible Markup Language (XML), a standard that lets businesses communicate over the Internet using a common "language", this problem could be nearing solution.

"XML technology is the next leap forward in unlocking the potential of business-to-business Internet commerce," says Mark Hoffman, president of Commerce One. This company pioneered Internet procurement technology and has now decided to adapt its proprietary systems to embrace the new XML standard.

The particular relevance of XML to business-to-business trading is that it provides a common language allowing diverse systems and applications to exchange purchase orders or search online catalogues, for example.

"Until now, it has been extremely difficult for companies to conduct business easily over the Internet because of the lack of a single technical vocabulary for describing business processes," says Microsoft chairman Bill Gates.

The US software giant is one of several big IT vendors to recently voice support for the new standard. Germany's Software AG has developed XML server technology, while IBM says it will enable its entire e-business software portfolio for XML; it already offers a range of XML tools.

XML is superficially similar to Hypertext Markup Language (HTML), the standard for creating web pages, in that it uses "tags" to mark blocks of data in a document. However, HTML tags simply tell web browsers how to display the data – in italics, for example.

XML, by contrast, lets businesses create custom tags that describe the content of a document rather than its presentation. For example, a component manufacturer could identify data in its online catalogue with tags such as "list price" or "size".

With the right software, a component buyer could automatically search online catalogues of different vendors, using the XML tags to identify components with the desired characteristics. "XML represents a sea-change in the way we think about data," says Simon Phipps, who heads IBM's XML initiative.

However, before the tide turns in favour of XML, suppliers and customers must agree on a common XML vocabulary. Otherwise, one vendor might use the tag "size" and another "dimension" to represent the same information.

This is the big weakness of XML today. Thanks to the standardisation efforts of the World Wide Web Consortium (W3C), which published the XML specification in 1998, the framework for using XML is well defined. But much work needs to be done in standardising vocabularies.

"W3C tells you how to build the tags but it does not tell you what goes into them," says Mr Phipps. One solution is to copy the Electronic Data Interchange (EDI) industry and create standards designed for specific trading communities.

RosettaNet is one example of this. Formed in 1998, this non-profit organisation aims to use e-commerce to link trading partners in the computer manufacturing industry. RosettaNet has more than 40 members, including vendors such as Cisco and Compaq, whose business models are rapidly shifting to e-commerce. RosettaNet plans to develop a library of XML tags to describe just about every component in a computer system.

CommerceNet, the big US e-commerce consortium, stresses the importance of achieving a broad consensus on how XML should be used in practice. It is keen to address a criticism levelled at traditional EDI and, indeed, some existing Internet business-to-business trading systems, which are designed primarily to streamline the procurement function of corporations.

Critics contend that these systems often bring little benefit to the suppliers, who are obliged to adapt their business processes to fit those of their biggest customers. CommerceNet thus hopes to use XML to create flexible and dynamic trading environments that benefit all parties.

One project is the creation of a virtual marketplace that includes catalogues from different vendors based on standard XML tag sets and allows shoppers to search for products across vendors by specifying product and merchant attributes.

Veo is one of many start-ups hoping to profit from the intense interest in XML. The US company, recently acquired by Commerce One, has developed a Common Business Library – a set of XML "building blocks" – for creating business documents such as catalogues and purchase orders.

The clearest sign yet that XML is poised to go mainstream is Microsoft's growing interest in the technology. Earlier this month, it announced BizTalk, an XML-based e-commerce framework that allows companies to integrate applications and conduct business over the Internet with trading partners and customers.

The next releases of flagship Microsoft products such as Internet Explorer, SQL Server and Office 2000 will include XML support. Microsoft has also teamed with WebMethods, a privately held start-up, to develop technologies for the next generation of XML applications. WebMethods specialises in XML technologies to link into enterprise resource planning systems.


Bill Gates, Microsoft chairman: keenly interested in XML AP

Extending the supply chain to link external partners into ERP systems could be one of the more compelling uses for XML in e-business, analysts believe.

"In today's burgeoning electronic landscape, there is a growing need for companies to share data more efficiently – sometimes in real-time – both internally and across the extended supply chain," says the Aberdeen Group, a US consultancy, in a white paper on XML.

One WebMethods customer, a US PC manufacturer, is using its technology to share planning and forecasting data with its top level suppliers. They, in turn, send their inventory data to the PC manufacturer, creating a fully integrated supply chain.

Supply chain integration has long been a boast of the ERP industry. But it is hard to achieve because of the proprietary interfaces in software products such as R/3 from SAP, the German-based industry leader. But even SAP has finally had to bow to the XML movement by deciding to abandon its proprietary interface and use XML as the primary standard for business-to-business communications.

VIEWPOINT
MARK HOFFMAN OF COMMERCE ONE

A pioneer in e-procurement

Mark Hoffman, chief executive of e-commerce pioneer Commerce One, likes a challenge. In 1996, he turned his back on Sybase, the billion-dollar database company he had led for over a decade, to take the helm at Commerce One, then an unknown startup.

Cynics might say he jumped the Sybase ship at the right time. The company he co-founded in 1984 became a pioneer of relational database technology and rose to fame with the booming database market in the late 1980s and early 1990s.

But the market then took a turn for the worse and Sybase was hit hard by declining sales and persistent losses.

His successor as chief executive at Sybase, Mitch Kertzman, also recently threw in the towel. Nevertheless, Bob Epstein, the other founder of Sybase, remains on the board of the troubled database company.

So does Mr Hoffman ever feel a twinge of regret at leaving the company that he developed into one of the world's 10 largest software vendors? The answer is a definite "No". And he adds: "I love what I am doing now, as this area has the highest growth opportunities."

The "area" that Mr Hoffman wants to carve out for Commerce One is business-to-business procurement over the Internet. This is a largely untapped segment of the e-commerce marketplace and one with tremendous potential – business-to-business transactions account for 5 per cent of US gross domestic product.

"Businesses are quickly realising the tremendous cost-savings and business benefits possible through automation of their entire indirect goods and services supply chain," he says. Commerce One, founded in 1994, has pioneered what it calls "e-procurement" with technologies that allow organisations to automate their procurement processes using the Internet.

An early user is the County of Los Angeles, which turned to Commerce One to help streamline the purchasing of a huge range of goods. Of course, online procurement is nothing new: the electronic data interchange industry has offered this for two decades using proprietary networks.

But Mr Hoffman gives the EDI industry short shrift. "EDI is not going to exist in three years," he says bluntly. It was conceived in an era of proprietary technologies and rigid commercial relationships, he maintains, and is thus ill-suited to trading in today's Internet age.

"The EDI companies will have to change their whole business model and it's going to cause them a lot of pain." Commerce One has thus taken the idea behind EDI and extended its scope and flexibility using Internet technologies. The goal is to create Internet-based "virtual trading communities" accessible to all companies, large and small.

Commerce One's principal procurement application, BuySite, is used today by 19 large organisations. It is designed primarily to automate the purchasing of maintenance, repair and operations (MRO) items, rather than production components.

In Mr Hoffman's view, MRO sourcing is an area often overlooked in the drive for greater corporate efficiency; a company may be using the latest lean manufacturing techniques, but its ordering of MRO items, such as paper clips or office furniture, may be chaotic and inefficient.

Big potential for cost-savings

The County of Los Angeles is using Commerce One's technology to source MRO items direct from suppliers and so largely eliminate the need for warehouses. According to Mr Hoffman, this could deliver annual cost savings of at least $40m. "Using BuySite, you can cut your procurement costs by a factor of 10 or 20."

Commerce One's other procurement application is MarketSite. This is closer to the idea of a "virtual trading community" as it allows suppliers and buyers – who may not have dealt with each other previously – to meet in a web-based marketplace.

Commerce One claims that 5,100 suppliers and manufacturers today use MarketSite, and buying organisations can access over 5m items online. It has struck deals with leading US suppliers of MRO items such as Office Depot, NECX and Wareforce.

Analysts see business-to-business trading as the next wave of the e-commerce revolution. But this fledgling industry is struggling to build momentum and the modest success of Commerce One over the past four years pales into insignificance when compared with the meteoric rise of consumer e-commerce pioneers such as bookseller Amazon.com.

Mr Hoffman admits that electronic procurement has been slow to take off. "Up until now, there have not been the applications or the technologies to make it a very compelling argument." But that will quickly change, he believes, once there is a critical mass of businesses, large and small, using the Internet for day-to-day procurement. He sees XML (see report above) as a key technology to reduce the cost and complexity of creating online trading communities.

XML, in effect, provides a common "language" to automate business transactions. XML (extensible markup language) will really drive down the costs of procurement, he says. "In the long run, contracts, invoices, requests for proposals and other business documents will all be described using XML."

Commerce One plans to produce XML-compliant versions of its MarketSite and BuySite applications by mid-1999. This year should also see Commerce One launch an initial public offering. It has had four successful rounds of venture capital funding and Mr Hoffman believes it is now time to take the company public.

If electronic procurement does go mainstream, analysts see Commerce One as well placed to benefit from the boom, particularly as it has deals with such heavyweights as Microsoft, SAP of Germany and, most recently, British Telecom.

But as Mr Hoffman knows from his years at Sybase, running a big public company is a very different proposition from nurturing a privately held start-up.

He has thus made private investments in several other start-ups active in the new digital economy. So, if the satisfaction of running Commerce One as a public corporation should one day pale, he has plenty more challenges up his sleeve.

Geoffrey Nairn

ONLINE AUCTIONS by Christopher Price

Rush to bid in cyberspace

On-screen auctioneers are notching up impressive sales, especially in the US, but a few awkward issues such as fraud and tax still have to be resolved

The 500 people who crammed into a west London ballroom last month for an auction were not the only bidders for the 200 properties on the block. Around a thousand other people had registered to follow proceedings in the UK's first property auction live on the Internet. A dozen of these had lodged the necessary 10 per cent deposit on the properties they were interested in to join the bidding.

One couple wanted to buy a farmhouse in Cornwall, but was unable to make the journey from the county to London on that particular day. The Internet link provided all the information as the auction developed, rather than having it relayed over the phone, their only other alternative.

It is this combination of convenience and instantaneous participation which is driving demand for auctions on the Internet. And for the literally hundreds of businesses flocking to take advantage of the new mode of buying and selling, the Internet offers a quick and low-cost means of entry.

The burgeoning online auction industry also has its standard bearer in eBay of the US. Its successful Nasdaq stock market debut last September, when the shares jumped 200 per cent in the first day's trading, brought the auction phenomenon to prominence.

EBay's performance since then has not disappointed. Its fourth quarter results showed earnings per share almost twice those of market forecasts, while revenues of \$19.5m were 643 per cent higher than the same period a year before.

It has paved the way for other similar ventures to come to the attention of investors. For example, Bid.Com, Canada's biggest online auction site, is seeking a listing on Nasdaq, the US exchange which is the home of most listed Internet stocks.

The company has already attracted feverish interest from investors on the Toronto stock market – its price rising from 60 cents to C\$7 in the past three months.

In the UK, QXL has recently received funding from venture capitalists, valuing the auction company at £20m (\$32m).

However, this nascent market has not had an entirely trouble-free time. Fraud, taxes and the sale of regulated goods are all issues which have been raised in recent months; analysts believe they will need to be addressed before online auctions win complete credibility.

Microsoft, the world's biggest software group, recently accused eBay of facilitating the sale of thousands of copies of pirated Microsoft products.

At the end of February, 8,000 copies of the latest version of its Office software were being auctioned from at least 140 sites, said Microsoft. Prices were as low as \$19.99 for a product which normally retails for \$599. Microsoft said tests showed that most of the copies were illegal.

The company wants sites such as eBay to take responsibility for the items sold through its auctions. EBay contends that because it does not physically ever have any of its auctioned products, it cannot be expected to verify their suitability.

In addition, the huge volume of goods now being sold through the site – around 250,000 new items a day – makes any close inspection impossible, eBay maintains.

To help counter criticism, the group has set up a "legal buddy" system which enables companies to notify it if illegal goods are being sold through its auctions. The offending auction is then closed down.

This is the second controversy to hit eBay in a month. In January, it emerged that the New York City authorities were investigating the company over alleged fraud on the site.

Online auctions were the biggest source of Internet fraud last year, according to a report from the US National Consumers League. In total, Internet fraud jumped six-fold in 1998, from 1,280 cases to 7,752; more than 4,000 were connected with auctions and the average loss per victim was \$293.

The NCL says it is now receiving around 400 complaints a month regarding Internet auctions. Most involve the advertising of goods which are sold but never delivered or the sending of products that are not those advertised for auction.

These problems have cast a shadow over the industry, and perhaps explain why the eBay model, which relies on person-to-person contact has not been emulated widely. It is also worth noting that eBay is the only Internet auctioneer to be profitable.

Instead, auction services are starting to become add-on components for existing online retailers. For example, Sharper Image, a US up-market gadget vendor, has recently added an auction service in order to boost traffic through its site.

Lufthansa, the German airline, certainly has evidence of how this can work. Last year, it began auctioning excess tickets in a move designed to bring people to its web site: there were an average of 136,000 participants per auction and 4,300 tickets sold.

Other companies are using the auction process to buy-in and sel-off surplus stock. UBid, for example, is a spin-off of Creative Computers, the technology retailer, WebAuction is part of Micro-Warehouse, the computer reseller, and Surplus Auction is a subsidiary of Egghead.com, the online software group.

The enthusiasm shown towards these services by consumers is driven by the security they offer in dealing with established businesses.

That is certainly one of the reasons behind the decision of Sotheby's, the international auctioneers, to launch its first online auction. The reputation of the group, founded in London in 1749, has attracted 1,500 art dealers for the site, which will be launched in July.

Online meteorite collector: in Scotland, Rob Elliott displays a meteorite he bought at auction over the Internet at his home in Milton of Balgonie. Mr Elliot, 37, a self-employed electrical engineer, was able to purchase two meteorites for his collection during the online auction AP

CASE STUDY
eBAY

Online Mecca for avid collectors

There are dozens of online auction web sites, but there is only one eBay.

The largest and most active online trading post, eBay has created on the Internet the atmosphere of a rowdy street market, complete with a colourful cast of characters behind the stalls and crowds of shoppers jostling to see the goods.

To many of eBay's millions of buyers and sellers, the web site represents far more than an online resource. It has become a form of entertainment and, in some cases, a means of earning a living.

Each day, eBay hosts over 1.4m auctions with 250,000 new items added to the "for sale" list every 24 hours. On average, about 800,000 bids a day are placed.

Collectors are the foundation of eBay's success. Whether their passion is baseball cards or beanie babies, stamps, books or figurines, they are among the most avid users of the eBay auction system.

Jon Bertolino of Illinois collects and sells Hot Wheels model cars and old toys. Since discovering eBay early last year, he has been doing 90 per cent of his business on the web site. In contrast to mailing lists and magazines for collectibles, eBay gives everybody a chance to bid on an item, he says.

"On eBay, you just bid, and you decide how much you are willing to pay." However, since its foundation in late 1995, eBay has broadened the scope of its auctions to include over 1,000 product categones, ranging from computers to second-hand clothing.

As well as enabling individuals to sell items they no longer want, eBay has also become an online distribution channel for many small businesses. "Michael" of California, was the proprietor of an antiques store. "I closed my store last year when I found I could gross the same amount with one-twelfth of the expense, using eBay and trade shows," he says.

EBay has become a part of its users' lifestyles, the company explains. "Many users have created second businesses, or quit day jobs altogether, by selling items on eBay." While many of the best known "portal" web sites still struggle to establish user loyalty, eBay appears to have achieved a sense of online "community" through the common interests of its users.

The web site includes several "chat rooms" where users gather to swap messages about their hobbies, advise one another on computer problems or simply "hang out". According to Media Metrix, a market research group that tracks activity on the world wide web, eBay is the number three shopping site on the web and the 20th most visited site.

Inevitably, perhaps, in a medium that shields the identity of buyers and sellers until a transaction is completed, there are some people who take advantage of the service to cheat buyers out of their money. Although eBay does not file fraud complaints on behalf of its members, the company insists that reported cases of fraud represent less than one-hundredth of one per cent of all the transactions conducted on the web site.

'The fun of searching for an online bargain is a big draw'

EBay also goes to considerable lengths to protect users from sharp operators. Each registered user has a "feedback" rating, based upon comments submitted by people he or she has done business with. Users can access those comments to determine whether prior transactions have gone smoothly and whether buyers were satisfied.

Similarly, sellers can find out whether the winning bidder in their actions has failed to pay for items previously purchased.

Nonetheless, consumer complaints about online auction transactions are on the rise. According to Internet Fraud Watch, operated by the US National Consumer League, the total number of complaints about Internet transactions increased by 600 per cent last year. The increase in complaints largely reflects the growth in electronic commerce over the past year.

"More people are online and more people are getting scammed," says Susan Grant, director of Internet Fraud Watch. "Consumers need to remember that con artists are everywhere – even in cyberspace."

However, the consumer advocacy group noted an alarming rise in the proportion of complaints related to online auctions. In 1997, complaints about auctions represented 26 per cent of the total. Last year, reports of fraudulent auctions increased to 68 per cent of the total.

"Many people who participate in online auctions have good experiences, but the increase in complaints points to the need for more consumer protection and increased education," says Ms Grant. IFW has been working with eBay and other auction companies to stop fraud.

The consumer group recommends that individuals use escrow services, such as that offered by eBay, to protect themselves when making large purchases or sales via online auction sites. However, as anyone who has bought goods in a street market is well aware, the old axiom "buyer beware" should never be forgotten.

Still, the fun of searching for a bargain remains a big draw and business on eBay is booming. "From October to December 1998, eBay's community grew from 1.2m registered users to 2.1m," says Meg Whitman, eBay's president and chief executive. "Every minute of every day, more than 150 new items are listed, more than 500 bids are placed and seven new people register on eBay."

Louise Kehoe

ADVANCES IN TECHNOLOGY by Philip Manchester

Powerful drivers of change

As companies harness IT to transform their operations, the true potential of e-business is starting to be realised

Digital technology is the engine which drives electronic business. Indeed, e-business is only possible because of the convergence of three technologies – telecommunications, digital computers and software.

Telecoms will soon be entirely digital – embracing everything from the way content is encoded, through software-controlled routing to control and management of the network.

Telecom and computer networking companies are moving closer together and will be indistinguishable within a decade. Recent mergers between Nortel and Bay Networks, Alcatel and Xylan and Esprit and GTS suggest that the days of the telecoms-only company are numbered.

At the same time, computer hardware manufacturers increasingly sell enterprise-wide computer networks rather than the single isolated machines they once advocated. They are also turning away from hardware manufacture – now a commodity market – to integration services and software as new sources of revenue.

Software, of course, reaches into every corner and is, without doubt, the most important of the three technologies that make e-business – and e-commerce, the online buying and selling side – possible.

Software harnesses and controls the power of digital technology, as well as enabling it to deliver the ultimate business benefits: lower costs, higher profits and more flexible working practices.

But software technology is changing. Organisations no longer build special-purpose applications. Instead, they buy in a combination of pre-written packages, standard components and support services which they then customise.

All three of the converging technologies come together in the Internet, which is now more than merely a medium for universal digital communications. The Internet *changes business models* in many industries, thereby enabling companies to alter working practices, create new products and build closer relationships with suppliers and customers.

Despite a recent backlash, which suggests that the Internet is not yielding the commercial success expected, there is evidence that it does deliver. A survey of online retailers over the *Christmas period last year* by Interactive Media in Retail Group (IMRG) shows that a staggering 92 per cent of those polled either hit or exceeded expectations.

A significant 15 per cent responded in the "beyond our wildest dreams" category. IMRG estimates that *US online sales totalled* $9bn over the period, with European sales at $500m.

Emerging software technology – based on pre-engineered components that can, potentially, be delivered and supported via the Internet – is the key to exploiting the e-commerce environment.

Organisations are using off-the-shelf software components – combined with their existing applications and links to the web – to create a flexible IT infrastructure so that they can exploit the opportunities provided by e-commerce.

The installation of an enterprise resource planning package – which handles the key operational activities of an organisation – is a first step in this direction.

But ERP packages – such as those marketed by SAP, Baan, Oracle and others – are only the starting point for e-business. Innovative companies need to go further, by both bringing their internal operational systems together and linking them to suppliers - and even customers – through the Internet and the world wide web. Known technically as "enterprise application integration", this is seen as the way forward for software technology and an essential foundation for electronic commerce.

"Until now, the Internet has been about a sort of electronic shopping mall," says *Andreas Kemi, chief executive* of Dutch software vendor Scala Business Solutions. "But we see the next trend as the business-to-business market – organisations using the Internet to connect with their suppliers. It is clear that businesses are going to use e-commerce to transform themselves.

"We are focused on putting the supply chain online," Mr Kemi adds. "We *need to use new technologies* to do this – strong technologies. We are, for example, working with partners such as Microsoft and we listen to what they are doing. If we are using Microsoft Server, for example, we use their recommendations."

Extensible Markup Language (XML) – the successor to the Web's HTML (hypertext markup language) – is the key to tying the com*plexities of existing applica*tions to the Internet and creating the foundation for e-business, he says.

"We made all of our products use XML – so you could run a Scala application from a mobile phone if necessary. Unlike HTML, XML knows about content so you can build more advanced integrated Web applications."

Integration is the buzz phrase at every level of soft*ware development. Again,* ERP is seen as a starting point for much grander integration plans.

"I think we are at the early stage of ERP – not the end game. There is more client/server development going on now than ever before and the software market is growing at an unbelievable rate," says Richard Holcomb, founder and chairman of HAHT Software, the US web *integration* special*ist.* "We are seeing people taking all those legacy systems and giving them a web browser interface so every application looks the same."

Business benefits are increasingly evident, but do not always turn out as expected. Mr Holcomb quotes the example of the San Francisco Opera House which set up a web site to *advertise and take orders for* tickets.

"They found that 56 per cent of the people that ordered tickets over the web *had never been to the opera* before – they were new customers. The Opera House put the system in to automate the ticketing process and cut costs. But they also gained a new market."

The rush to e-commerce will doubtless see many similar cases of unexpected benefits. But as with any other business venture, it will be the innovative and the fast-moving players who win through in the long term.

Online experiment: Tangi Miller, right, of television's "Felicity", goes cyber-shopping with Levi.com Semester Online winner Alanna Blanco from Chico State University, California, in the Hollywood area of Los Angeles. Ms Blanco is one of three college students who is participating in a first-of-its-kind e-commerce experiment to see if they can survive a semester by buying everything they need, online. See also retailing report: facing page AP

IMPACT OF E-COMMERCE by Nuala Moran

Is this the death of the salesman?

In an e-commerce world, the sales force will remain a key point of contact for customers dealing with larger businesses, but new skills will be demanded

The growth of electronic commerce is forcing companies to rethink the role of the sales force.

While the direct sales force is a potent selling channel, it is expensive. Other channels, including call centres and the Internet are not only vastly cheaper in terms of transaction costs, *but they also offer more effi*cient means of carrying out traditional sales force tasks such as distributing information, taking orders and dealing with queries.

The question, therefore, becomes: Can the Internet and other electronic channels provide the richness and interactivity of a salesperson, and if not, how is the sales force to be integrated into the proliferation of newer and more cost-effective routes to the customer?

Graham Brown spent six years on the road as an account manager for the computer company Digital. Now, as a principle consultant for Computer

Sciences Corporation (CSC), specialising in digital business, he says: "There *is* a role for the direct sales force in the future. There will always be a role for personal contact in selling, especially in acquiring new customers."

This is because the one drawback of an Internet selling strategy is that the customer has to go the supplier. The challenge is thus to create customer loyalty.

"I believe that face-to-face contact is a prerequisite for establishing a fruitful e-commerce relationship," he adds. "While electronic channels may be cheaper to run and organise, the sales force will *be the business winners and* will also manage the customer relationship."

Chris Mathias of Conduit, the IT consultancy, says that at one end of the spectrum – the sale of commodity products – e-commerce will "butcher" the field sales force.

"Even with expensive items, such as buying company cars, I'd rather go to a web site and compare lifetime running costs, look at financing options and then press a button to order, rather then talking to all the dealers."

But he believes that at the other end of the spectrum the picture is not as clear. "Would you buy knowledge-intensive services such as management consultancy without sitting across the table and understanding who you are buying from?

"In these sorts of areas, I can't see the sales force *being replaced. But the num*bers will be tiny in comparison. We are no longer talking about a body of 200 sales people driving up and down the motorway," says Mr Mathias.

From force of habit, customers may expect to have personalised relationships with their suppliers, but with the *growing sophistica*tion and interactivity of technology-enabled channels, personal may no longer mean human.

Services

Customised web sites now allow corporate accounts to be managed remotely in a way which takes account of the special needs of the customer.

For example, Dell, the US the personal computer manufacturer, has built its business on telephone and Internet selling. Established sales *wisdom says that this is fine* for home users or small businesses, but large corporate accounts require the personal attention of a sales force to sell equipment and manage the ongoing relationship, thus ensuring repeat business.

Dell is turning this on its head by setting up customised web sites for corporate customers, where staff can place orders according to pre-agreed terms. The advantage *for Dell is that* it can sell into corporate accounts without having to run an expensive sales or distribution network. For the client, it gives much tighter control over purchasing.

Similarly, IBM has set up dedicated web sites for strategic customers. These include logos, e-mail links, customised catalogues, price books and links to internal systems such as purchasing.

Mr Brown says that while dedicated websites are owned by the supplier, they should be created with a significant input from the customer.

Furthermore, rather than being run by a central Internet department they should be managed by the account team. The sites should provide customers with services they cannot get elsewhere, such as mapping online catalogues against the customer's parts numbering system, pricing to pre-agreed discounts, providing access to stocking systems and allowing staff to place orders remotely.

But dedicated web sites can go beyond what can be thought of as mechanistic-selling activities, by providing a forum for discussion between customers and suppliers which is more valuable to both parties than the kind of contact a salesperson could have on a single visit to a single site.

The aim is to make the site so useful that it becomes an everyday part of the customer's desktop environment, says Mr Brown.

It is clear why the Internet is becoming such an important sales channel.

A recent study by CSC in

Turn to next page

CYBER-SHOPPING by Penelope Ody

On the verge of a retail revolution

Retailers still want good locations, but this increasingly means creating an attractive site in the digital marketplace as e-shopping takes hold

While US shoppers and retailers enthuse over the wonders of online buying from home PCs, European interest continues to lag behind. Most forecasters argue that this is because Europe tends to be some two to three years behind US retailing trends, but there are growing signs that the e-shopping market east of the Atlantic could develop quite differently.

Instead of total PC dominance, a growing diversity of electronic interfaces – from mobile phones and Palm Pilots *(see Safeway case study, this page)* to interactive TV and an assortment of domestic appliances – is now emerging. Equally, the key players are determined to avoid the price and brand erosion associated with Internet selling and are starting to make value-added service offers to attract and retain high spending shoppers.

"The web is increasingly commoditising the offer," says Christian Nivoix, IBM's worldwide general manager for the distribution sector. "We can see that in the growth of online auctions in the US. Instead, retailers are now segmenting their customer base and identifying the 30 per cent who contribute 60 per cent to the profits – then they cherish and take care of these key customers with better services and personalised offers."

According to Jupiter Communications, the US research company, sales through online auctions will reach $3.2bn annually in the US by 2002, with increased emphasis on cut-price clearance lines as companies choose this route to liquidate excess inventory. There are also growing numbers of "intelligent agents" guaranteed to find shoppers the best price on the web.

Last year, some 750,000 US consumers and more than 50 leading electronic retailers joined the Netcentives' Clickrewards scheme, offering shoppers an assortment of frequent flyer points from leading airlines. By the end of this year, Netcentives expects its membership total to reach 2.5m e-shoppers. Other promotional schemes are also likely to grow.

As Mr Nivoix argues, faced with such mounting price and incentive-based competition, retailers are seeking to gain a bigger slice of consumer spending by dominating the various routes each customer takes to market with tailor-made services.

Service providers such as Virgin.net and TescoNet in the UK, for example, try to ensure that all subscribers visit the corporate home page first, so that hot links to other services are effectively controlled by the operator. More than 80 per cent of Virgin subscribers always enter the Net via the Virgin home page which receives more than 6m hits a month – or as commercial director David Johnson puts it, "we direct a lot of traffic".

For Tesco, the prime aim of becoming an Internet service provider is to boost sales. "We want to retail," says head of Tesco Direct, Gary Sargeant. "That's what it's all about." Users get to the Tesco home page when they log on and they can always return to the Tesco site very easily."

Tesco is trying out a new high-tech order-picking system at its Sunbury store, south of London, in an attempt to cut home delivery costs and streamline its home shopping system. "Obviously, the £5 we charge for delivery rarely covers the cost of having an operator walking the store to select and pack the goods and then a van and driver to deliver them to the customer's door," says Mr Sargeant.

"So we need to improve and automate the system. Home shopping is helping us get closer to our customers and the best ones are those who both visit the store *and* order for home delivery – that's the most profitable combination."

Like Safeway, Tesco is experimenting with other input devices, currently offering the same scanner-plus-PalmPilot as an input device and planning to add a scanner-plus-ballpoint (also from Symbol Technologies) very shortly.

Mobile telephones, too, are expected to play an increasingly important role in the e-shopping arena, especially with the introduction of new protocols such as WAP (wireless application protocol) and the broader bandwidth of UMTS (universal mobile telephony service) in the next few years.

In Finland, where mobile phone penetration has reached 58 per cent (compared with 25 per cent in the US and 20 per cent in the UK) there is massive growth in innovative telephone shopping and service options. Most use the text-based short messaging service, but WAP-based options will transform the marketplace before the end of the year. This system effectively allows simple menu-structured web pages to be stripped of complex graphics and relayed to the telephone.

'The kitchen is seen as a key target area by many suppliers'

"The quality is improving all the time," says Bill Murray, European vice president of Computer Sciences Corporation of the US which is collaborating with Finland's Nokia. "With devices such as a Nokia Communicator you can even get readily recognisable fashion images for direct ordering."

CSC and Nokia are already working with a Finnish fashion retailer which plans to send clothing offers direct to mobile phones using a combination of cursors, touch screen technology and WAP.

This would allow shoppers to hotlink to order entry pages and to track the progress of their orders in real-time, anywhere, by telephone. Prototype telephones for UMTS from companies such as Siemens of Germany, incorporate touch-screens capable of high quality graphics or video images, making the idea of downloading pictures of clothing to a mobile telephone perfectly feasible.

"People carry their mobile telephones at all times and they provide an existing and readily available, highly personal interface," says Mr Murray. "Add to that the rapid growth expected for digital television with Sky [in the UK] already projecting 1m subscribers for interactive services by the end of the year, and you can see how the interface options are proliferating."

The kitchen is seen as a key target area by many companies. Last year, NCR launched a microwave oven which incorporated a touch screen PC for home shopping and banking. In February, ICL – the UK-based subsidiary of Japan's Fujitsu – announced the development with Frigidaire in the US and Electrolux in Europe of a "fridge/freezer", combining a touch-screen PC, bar code scanner, modem and television in the door.

Shoppers are expected to scan items as they take them from the fridge to create a shopping list for later transmission to their preferred *retailer for collection or* delivery. "We would envisage retailers branding the unit and renting it to their customers rather than large numbers of the fridge being sold direct to consumers," says ICL senior retail consultant, David Cox.

"This would give the retailer a branded interface and a direct method of tracking customer preferences and interests." This emphasis on a combination of value-added services and user-friendly hardware is expected to influence e-shopping offers in future.

IBM's Mr Nivoix says: "It will be about bundling a suitable package together to appeal to the target customer – perhaps a digital camera, plus the software and services to add the images to home PC files, and then a travel package where you can take exciting photographs as well.

"Selling these profitable personalised bundles, rather than simple products, will be key."

E-COMMERCE

Re-training required

From previous page:

the electronics components market estimated the cost of transactions via the telephone at $2 per order and via traditional electronic data interchange at $1.20 per order. Use of the Internet drove the transaction cost down to 20 cents per order.

In short, e-commerce will create a cost-effective channel to support small customers and repeat transactions with large customers, leaving the expensive human resource of the sales force to concentrate on developing strategic customer relationships and pro-actively selling new products and services.

"The direct sales force will create the new relationship, whereas the ongoing relationship will be more operational," says Mr Brown. "E-commerce channels will automate customer relationship management, making it very accurate and consistent."

E-commerce will not mean the end of the sales force, but *it will require sales* people to have a different set of skills. As well as being skilled negotiators, strategic account handlers will need to be experts in their industry sector rather than trained in sales.

Dedicated "reps" will work an account globally, and while they will develop business in different parts of a customer's organisation, the technical channels will allow them to be highly co-ordinated and consistent in their approach.

Many companies which have traditionally relied on a large sales force to generate business are now concentrating on the issue of how to deploy the sales force in an e-commerce world.

"We are seeing an explosion in customer relationship projects. If the transactional elements of the relationship can be transferred to the Internet, what *is the role of the sales force?*

"The development of electronic commerce is requiring companies to redesign their *sales and marketing, re-skill* their staff and integrate the channels," he says.

Mr Mathias of Conduit says the critical element is weaning customers away from direct contact.

"Managing the migration is critical and very difficult to do. For example, insurance companies have to worry about offending high street brokers who bring in 95 per cent of their business, while at the same time devising a business model that allows them to compete with competitors selling insurance over the phone and the Internet.

"The point is that you have to give customers all the options on how they communicate with you."

In an e-commerce world, the sales force remains a potent means of staying in touch with the customers, but it is far from being a stand-alone function.

E-commerce themes in the FT-IT Review: information panel, page 7

CASE STUDY
SAFEWAY

Customers scan their palms before buying

It all looks deceptively simple. Neat little PalmPilots, complete with barcode scanners and a nicely structured list of all the items you've bought in the supermarket over the past four months just waiting to be reordered.

Tick the boxes, plug the unit into the telephone and just turn up at the store a few hours later to collect your pre-picked and pre-packed shopping list.

But while it may appear simple, Safeway's new Easi-Order scheme in the UK hides some leading edge technology developed over the past 18 months at IBM's Thomas J. Watson Research Center in Hawthorne, New York. The system, which is totally scalable and would have no problem dealing with palmtop-pressing customers running into six figures, uses Java and web browser *technology sitting on top of a* parallel DB/2 database.

Not only can it personalise the shopping list for each customer, based on the last few months' purchases – or even those for the whole of last year – but it also uses intelligent data mining techniques to find customers buying similar products. Then, by comparing their shopping baskets, it can come up with a list of personalised impulse-buy suggestions which will very probably appeal to this particular subset of customers.

This is all done automatically, almost instantaneously, and can be delivered not just to a PalmPilot but to any other web-enabled appliance. "The entire system is totally scalable across a wide range of platforms," says Safeway's IT director, Mike Winch.

"It is a major research achievement which has really excited the IBM boffins." Marisa Viveros, manager of emerging database applications at the Hawthorne labs, says: "The underlying DB/2 technology is very solid and Java allows us to port the applications to any platform – a PalmPilot, a mobile telephone, a television or even *a microwave oven."*

The system is in use at Safeway's Basingstoke store, south-west of London, where 200 customers, who already use Safeway's "Collect and Go" pre-ordering system, have been given free Safeway-branded PalmPilots. These have been adapted by Symbol Technologies of the US to incorporate a barcode reader so that shoppers can scan their discarded packets to add items automatically to the weekly shopping list.

The Easi-Order application includes a product index, so that customers can quickly access lists of their favourite bakery, pet food or fresh produce orders, for example. There is also a highly intuitive *screen layout, so they can* easily switch to the list of suggested impulse-buy ideas to see which goods are on special promotion or which will earn extra loyalty points.

Both these lists and the stored product prices are updated automatically whenever the shopper downloads an order, while alerts warn customers if their stored files are getting out-of-date. As well as the Easi-Order application, the PalmPilots come equipped with the usual mix of personal organiser contact files, note pads and games.

"The PalmPilot is just the start," says Mr Winch. "Within months, we expect to add alternative platforms." A Psion Organiser (with barcode scanner) is likely to be added next, followed by mobile telephones and, ultimately, interactive TV. Further store-based trials using these different devices are planned.

The development, which IBM is backing under its

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FINANCIAL SERVICES by Mark Vernon

Cherry pickers move online

Greater use of the Internet will increase pressure on banks to compete with rivals eager to tempt away their best customers

Banks risk falling into a "death spiral", stirred up by the whirlwind rise of electronic commerce, says Martin Butler, chairman of Butler Group, the European research organisation.

Many observers would agree with this forecast. New entrants in the financial services arena are now able to exploit technology, notably customer relationship management systems and the telephone, to "cherry pick" high-value customers from traditional service suppliers.

This facility leaves the older banks with lower profits that result in their remaining customers paying higher charges, which in turn makes for new cherry picking opportunities. Thus the vicious circle becomes complete.

But Mr Butler believes the situation will "go critical" in the next few years with the emergence of Internet banking. "By 2005, two billion people will be on the Internet, representing 90 per cent of buying power on the planet," he says. It costs only about $1m to set up an Internet bank, about the same as the price of a single high street branch: a new generation of Internet-savvy cherry pickers is already being born.

So where is the financial services industry today in this cycle? The first step in Internet banking is the creation of a web site, although the process certainly does not end there.

At the end of last year, Bluesky International Marketing of the UK surveyed 863 Internet retail bank sites across Europe, as well as 1,676 sites in the US. Banks were rated from "brochure-ware" sites to advanced "cyberbanks".

Surprisingly, 476 European bank sites, or 55 percent, were intermediate and advanced "cyberbanks" compared with 249 or just under 15 per cent of US banks. Comparing differences across Europe is complicated because regional institutions dominate in some countries but barely figure in others. However, Germany easily had the highest number of online bank sites. France and Spain have six times as many advanced "cyberbanks" as Britain, although half the number of users.

According to Bluesky, Citibank is among the best sites in the UK. However, that judgement illustrates another problem in comprehending what Internet banking really means, since technical reliability is also a key issue. Jyra Research, a UK company that specialises in network performance monitoring, recently reported that the Citibank site "drops around half the connections that attempt to link to it".

First Direct came out very well, with an average response time of three seconds, whereas obtaining access to the NatWest site takes on average around 30 seconds. "All of this raises some questions about whether financial institutions are actually sinking enough resource into what potentially will be their major customer facing interface in the next few years," says Paul Robinson, chief executive of Jyra Research.

Such evidence is symptomatic of the failure of first generation Internet banking, according to Cliff Condon, the director of European New Media Strategies at Forrester Research. A number of mistakes have been made, he notes. For example, many banks have not approached the Internet with a view to developing a cheaper channel.

"If you make it easier for people to touch you, then people will do it more often, so transactions are incremental rather than reducing costs," he says.

More profoundly, many banks are only beginning to become more aware that the Internet helps to create commodities of financial products. "People can shop anywhere online," says Mr Condon. "So the Internet needs to become a differentiator through service. Therefore, if you have extra cash at the end of the month, is it better to pay off the mortgage or the credit card? Banks should offer tools that tell people the answers to these kinds of questions – in effect, private banking for everyone."

One institution grappling with the ramifications of these insights is Sun Bank, the UK banking arm of the Sun Life of Canada Group. The bank had an Internet presence which included the usual financial web site features such as the latest news, a company profile, feedback pages and rates associated with its product range.

However, Chris Cummings, head of marketing and sales, explains that the bank felt it was not truly embracing the Internet in a business sense, nor reaping the rewards. He also recognised that this needed to be put right urgently, due to an increasing awareness in the financial sector of the benefits of embracing web technology.

However, alertness can produce the wrong reaction. "A company can get too involved itself in looking into the options and we felt this might lead to analysis paralysis," Mr Cummings explains. "We asked consultants USWeb/CKS to provide us with an overview of what it would be like, so that we could put a toe in the Internet water."

This they did, putting their current products on the Internet. However the more interesting development began with the realisation that key opportunities exist by developing Internet-based products which are integrated with the information services of other organisations.

"If someone is buying a house and looking for a mortgage, information on the area they would like to live in – right down to which schools are the best, what the rail service is like, the council tax bands and a potted history of the area – would be provided on the site," Mr Cummings explains. "We would very much see the site as a kind of portal, with re-intermediation going on with our partners' products."

According to Forrester's Mr Condon, Sun Bank has correctly realised that in the online world, services eclipse products and owning the customer relationship is more important than margins on products. The successful players will become Open Finance Providers, in effect web portal owners similar to Charles Schwab whose web site already sells mutual funds from a variety of organisations.

"In Europe, the emergence of a unified market and aggressive efforts from a few leading firms will radically change the competitive landscape for financial services," adds Mr Condon. However, he warns that only a handful of institutions have the vision and capital to become truly pan-European providers, though there are opportunities for regional players.

Spain's La Caixa, Scandinavia's SwedBank, and Luxembourg's Fortis are pioneers, though he expects Switzerland and Germany to take the lead, notably through strong offerings from UBS and Commerzbank that will attract more than 7m users to the Internet by 2002.

The less successful, if they are to survive, thus have a bitter pill to swallow: they must submit to the dominance of an Internet brand leader, which might not even be a bank at all. Otherwise, they may well succumb to the "death spiral".

Financial information, anytime, anywhere: two young men confer as they browse the web at Dubai's Internet Cafe in the United Arab Emirates AP

CASE STUDY

Armchair shopping

From previous page:

"pervasive computing" programme, allows the retailer to communicate with its customers at any time and at any place. "You can download your order from the office, from a hotel room or from a mobile on your way home from holiday," says Mr Winch.

"It's a customer service benefit with real competitive edge. People ask us why we don't do home delivery. Well, anyone can hire a van and do that. What we want is to improve the way we communicate with our customers – which is what Easi-Order achieves."

The PalmPilots used in Basingstoke are labelled with the Safeway logo, giving clear brand reinforcement. But the sort of services available via this channel are unlikely to be limited to grocery orders for very long. Safeway already works with Abbey National, the UK bank, on financial services, and electronic banking is a clear option. Marketing links with travel companies or airlines might also follow – especially since IBM's Intelligent Data Miner can identify suitable target customers for these value-added services. "These sort of partnerships are a business issue," says Mrs Viveros.

"It is simple to set up the business rules and add a new application – technically it would be very quick and easy." Equally, in theory at least, the Safeway application could one day be downloaded to any personal organiser.

"You don't need a Safeway-branded PalmPilot to run Easi-Order," says Mr Winch. "With a pervasive computing model and appropriate business partnerships, it could sit on any suitable device, whatever the brand."

Penelope Ody

ONLINE GAMBLING by Caroline Daniel

Virtual chips, real stakes

A lucrative online market has emerged as gamblers flock to new Internet casino sites

In the world of "click and bet", there are no free drinks, no irritable waitresses chewing gum, and no James Bond lookalikes. It is just you, your computer – and an addiction to gambling.

Since the first sports betting sites opened, followed by the first online casino operation in August 1995, gambling sites have spread rapidly through the Internet. There are now around 1,000 gambling-related sites, of which at least 140 take bets from "namblers", as online gamblers are known.

According to a report last year from Datamonitor Europe, online gambling revenues in Europe are forecast to rise from about $130m in 1998 to $3bn in 2002. In the US, they are forecast to increase from $406m to $7.2bn over the same period. The overall gambling industry is worth about $600bn.

As Larry Weltman, executive vice president of GLC Limited, which runs online casino GalaxiWorld, puts it: "Early e-commerce was driven by the pornography industry. The next biggest industry which is coming to the Internet is gambling."

The lure of potential profits has tempted new entrants to the online gambling market, as well as the more established gambling brands.

Last month, Sports Internet, a new company seeking to exploit the growing Internet gaming market, announced plans to raise £1.95m ($3.1m) on the junior AIM market in London.

At the end of March, William Hill, one of Britain's oldest betting companies, will upgrade its Internet gambling site. Its first web site was simply for information.

"We were amazed at the level of interest, seeing 30-50,000 hits per week from all over the world" says Bill Haygarth, information services director.

Interest was further heightened by the football World Cup, when the group launched its first interactive betting service. It has now invested over £1m in its Internet activities, and employs its own technical staff.

The new site will offer a wide range of betting opportunities, such as betting on different European and international football leagues, as well as more unusual bets such as "first goal scored".

William Hill intends eventually to offer betting on golf, American football, ice hockey, basketball, baseball and international lotteries. It is also considering opening an online casino before the end of the year.

The challenge of creating alluring casino-style games has prompted a number of different approaches from developers. The most sophisticated graphics and animation generally run from software which has been downloaded from the Internet.

Java-based applications, running on a browser, and which do not take as long to download, are also becoming popular with developers. Faster still are the games based on HTML (hypertext markup language, in which web documents are written), although the graphics and animation on these are, until now, less compelling.

However, providing such glitzy entertainment does not come cheap. GalaxiWorld claims to have spent $25m developing its Internet casino, the first fully functioning Java-based gaming system.

It was launched in December, with a "Play4Fun" ver-

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SECURITY ISSUES by Rod Newing

Consumers' trust is growing

Efforts to develop a more secure protocol for the growing volume of e-commerce transactions are meeting objections from those opposed to over-complication

Security is a vital element in the development of electronic commerce, but finding a standard acceptable to all sides and covering every aspect is a tricky task.

The recent experience of MasterCard and Visa is a clear illustration of this. Because of the anonymous nature of the Internet, they wanted to ensure that their payment cards were used for e-commerce transactions, just as they are in face-to-face and telephone transactions.

They believed that the level of security provided by the widely-used secure sockets layer (SSL) protocol was inadequate for ensuring a guaranteed transaction. They, therefore, developed the secure electronic transaction (SET) protocol.

SSL uses encryption or "scrambling" to ensure both confidentiality, meaning that nobody can see the data, and integrity, as nobody can tamper with it. However, it does not provide authentication, which tells each party that the other is legitimate, so it does not address the issue of anonymity.

SET is a far more wide-ranging standard that uses digital signatures and certificates stored in an electronic "wallet" on the Internet user's personal computer and on the retailer's web site. The digital certificate is issued by a trusted third party certificate authority and the user's certificate contains card details. It is encrypted in such a way that it can only be read by the card issuer, not the merchant.

SET handles processes for once-off merchant and card holder registration, for making a purchase and getting the payment authorised through a bank's Internet gateway and for subsequent payment to the retailer. SET pilots have been conducted around the world, but very few have yet been implemented.

"The concept of not giving your credit card details to the merchant and of the merchant being assured that the card is valid is interesting," says Nick Shelness, chief technical officer of Lotus Development Corporation. "However, as the merchant carries the risk, people have become as comfortable with giving details on the Internet as over the telephone.

"They do business with well-known brands, or through a portal, which they trust. The market demand for SET as opposed to SSL isn't there, as the perceived problem has gone away."

Experience with the pilots has shown that SET has inter-operability problems and that because of the complex encryption involved, transactions take too long, even with additional computer chips to perform the calculations. It is expensive to implement and support and the distribution of digital certificates is a problem. It currently restricts e-commerce to the user's PC, where there is no protection for the electronic wallets, which could be passed on if the machine is sold.

"We didn't believe in SET in the first place," says Roger Alexander, managing director for emerging markets at Barclays Bank, the UK's largest payment card issuer.

"There was great difficulty in defining the problem we were trying to resolve at the outset, so SET 1.0 is not easy to implement – it is a logistical nightmare and is expensive. We are quite happy, but not complacent, that SSL with 128 bit encryption keys provides us with sufficient protection for card transactions."

Bob Lewis, director of channels at Apple Europe, points out that whereas consumers are very happy with SSL, SET is of most value to the merchant. "It provides authentication to reduce the cost of charge-backs, which are a huge problem in electronic shopping," he says.

"When a consumer returns the goods or refuses to pay, each transaction costs a bank around $50 to process and so they have pushed the responsibility and cost back on the merchant. With SET a merchant can reduce the likelihood of charge-backs."

Visa International admits that the number of Internet-based disputes is a major problem. "We don't believe that this market can reach its potential unless we can offer to merchants a mechanism that guarantees payment, and at the moment we can't offer such a service," says Jon Prideaux, senior vice president for emerging markets. "There is a clear and present need for some better form of authentication technology and there is no viable alternative to an evolved form of SET in terms of the critical mass it has achieved."

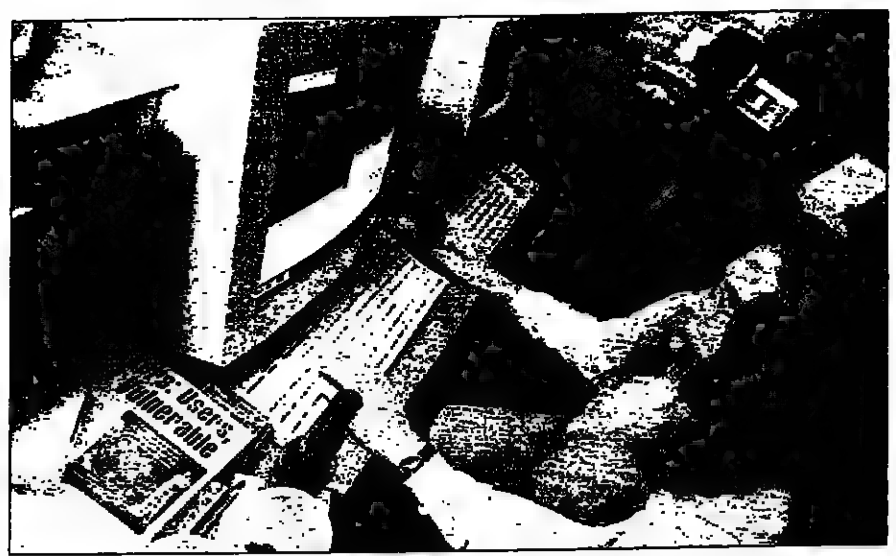
SSL is being incorporated into a new transport layer security (TLS) standard, but a higher level of security will follow from the separate introduction of payment cards with embedded microprocessors to provide authentication against the threat of counterfeiting in normal transactions. They will also make electronic commerce possible from any computing devices that incorporate smart card terminals, such as computers, set top boxes, telephones and kiosks.

"The bank may as well send you a voucher to pick up a smart card reader for your PC from your local computer shop," says David Birch, managing director of Consult Hyperion, a payments consultancy. "This will probably be cheaper and more useful than issuing you with an SET certificate."

The online retailers seem satisfied with current security. "SSL is here now and it's very good," says Jeff Bezos, founder and chief Executive officer of Amazon.com, the world's largest Internet bookshop. "We believe that by the time SET is a reality, SSL will have captured the market."

Gary Eichorn, chief executive officer of Open Market, the Internet commerce software provider, believes that making money on the web is the number one priority for businesses, not SET. "They have an acceptable solution with SSL, so they will put their energy into marketing their online businesses, not building a complex technology to solve a problem that isn't in the way of making money."

Consumers are also becoming increasingly comfortable with SSL, Mr Eichorn feels. "They don't see credit card security as a big issue, as shown by the strong online buying in the last holiday season – it really was an e-Christmas! Word of mouth and the general buzz is that it is safe and the lack of reports of fraud is reassuring consumers. The problem of people not using payment cards on the web has almost vanished without SET."



Hackers' rhapsody: many 'elite' hackers of the past, such as 'Madge', pictured here in Waltham, Massachusetts, are doing legitimate work, and being paid well for it by Fortune 500 companies in the US to explore networks and find weak spots. The former hackers' group calls itself 'LOpht' AP

ONLINE GAMBLING

Many casinos are licensed offshore

From previous page:

sion in January. The site offers 38 casino games, including slot machines, video poker, black jack and roulette. There is also a new 3-D version. The game takes up to three minutes to download.

In the Play4Fun version the customer is given $1,000 of "play money" to make bets. To make a bet in Roulette, the player drags a virtual chip onto a position on a virtual Roulette table, and clicks "spin".

After a few seconds, an enlarged graphic of a spinning roulette wheel materialises on-screen, with a close up of a ball bouncing enticingly past the numbers, like a spin of the Wheel of Fortune. When the ball stops, your account is either credited or debited. The whole experience takes around a minute. Once acquainted with the fun site, punters can move on to playing for real money. In January, its second month in operation, $7.3m was wagered on the GalaxiWorld site, up from $3m in December.

It is not just technical challenges that online casino operators and sports betting firms have to meet. They also face an uncertain regulatory and tax environment.

Operators have run into trouble in the past, particularly from US authorities, who contend it is illegal for casinos to take bets from most Americans. Authorities are also concerned that online gambling enables punters to evade betting duties.

Like most online casinos, GalaxiWorld is licensed offshore – in the Caribbean island of St Kitts. Other common locations are Antigua, Curacao and Grenada. Operators pay around $100,000 for a license, and usually do not have to pay tax on any of their earnings.

GalaxiWorld has also found a way to side-step some of the regulatory issues about who it can take bets from. Customers wishing to make a bet must first purchase G-cash – a new form of digital money. All their financial and personal details will be held with G-cash, not GalaxiWorld. The only thing GalaxiWorld will know about its customers is their password and online identity.

William Hill has tackled the problem slightly differently. Its site, for example, will operate from the Isle of Man, where tax on bets is just 0.3 per cent compared with 6.75 per cent in the rest of the UK. However, these facilities will be available for international customers only. UK customers will have to wait until August for a dedicated site and their bets will still be subject to betting duty.

For gamblers unsure of the credentials of a particular Internet casino – and there are plenty of horror stories about gambling operations not paying out winnings – Rolling Good Times, an online magazine for gamblers, hosts a service called "Dog Doo Awareness" where potential namblers can check out complaints about different web sites.

For their part, the established casinos are keen to be seen to give their customers a fair deal. InterCasino, one of the oldest Internet gaming groups, recently awarded a free trip to Las Vegas for two of its biggest customers, identified only as "Tereza" and "Tonyd".

And just to show how big a business online betting can be, InterCasino revealed that Tonyd placed over 400,000 bets during 1998, averaging 1,100 bets per day. Tereza, on the other hand, spent over 1,090 hours gambling on-line, which corresponds to about 136 working days.

LOOKING AHEAD

FT-IT MONTHLY REVIEW

E-COMMERCE UPDATE

☐ Other aspects of electronic commerce, including case studies of companies successfully applying web technologies, will appear in forthcoming issues of the FT-IT Review, published on the first Wednesday of the month. The next issue appears on April 7, followed by another issue in the Business Solutions Series on April 28, when the theme will be: Knowledge Management.

MONTHLY THEMES:

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FT SURVEYS PROGRAMME AND INDEX

☐ Surveys are published most days of the week with the FT. Topics include financial markets, global industries, business management and developed and emerging countries. A list of the following week's surveys is published every Monday in the Guide to the Week on the back page of Section Two of the Financial Times.

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ENCRYPTION by George Black

How far should the law encroach on the Internet?

The question of how to keep legal controls at bay is proving a dilemma for those keen on the rapid and unfettered growth of worldwide e-commerce

Digital signatures in Ireland: US president Bill Clinton and Irish prime minister Bertie Ahern digitally signed an accord on electronic commerce at the Gateway 2000 computer factory in Clonshaugh, near Dublin, using a smart card digital signature AP

Not since Bletchley Park, the UK's renowned code-breaking operation, closed at the end of the Second World War has encryption been such an important issue.

Coding and decoding are not now matters of life and death, but they are issues on which the success or failure of electronic commerce could depend.

If people are to use the Internet as a platform for buying and selling, they need to be able to trust it – and they need security and confidentiality to be guaranteed. Encryption could make this possible, but there are objections to allowing anyone to encrypt any material at will.

Governments are naturally worried that the Internet could become a vehicle for crime and terrorism. They, therefore, want to *claim a right to decrypt messages* and transactions which they consider suspicious. The information technology industry and the business world want governments to keep their hands off the Internet as much as possible, because they believe official intervention will impede the development of e-commerce.

Thus the adoption of encryption on the Internet is proving an extremely controversial issue around the world. One country that has decided to go its own way is the UK. Last year, the government announced plans for legislation on electronic commerce, introducing a voluntary licensing regime, with "trusted third parties" (TTPs) holding the keys to encrypted material.

These third parties could be obliged to hand over those keys to government bodies. The officially appointed licensing authority will be Oftel, the telecommunications regulator. The government believes that the voluntary approach will induce electronic traders to use licensed TTPs because *they will* want to have the backing of institutions which can underwrite their business deals.

While still in opposition before the last general election, the UK Labour Party claimed that attempts to control encryption technology were wrong and unworkable. In government, it has apparently had a re-think.

In February, a committee of British members of parliament monitoring the trade and industry department were warned by a business delegation that heavy-handed legislation could damage the UK's economic prosperity.

The government has been bombarded with criticism *from all directions. Bodies* such as the Federation of the Electronics Industry, the Computing Services and Software Association and the Internet Service Providers Association have all had their say in opposing the content of the proposed legislation.

Some critics say that the plan is inspired more by the security authorities at the Home Office and Government Communications Headquarters than by the Department of Trade and Industry. They dispute whether there is any need for a licensing regime, voluntary or otherwise. The licensing will in any case, they argue, be more compulsory than voluntary because of the disadvantages of by-passing it.

The business world sees the intended authority as a distraction from the cause of promoting e-commerce. "Licensing is an irrelevance," says Caspar Bowden, director of the Foundation for Information Policy Research, one of the leading objectors.

Another critic, Chris Humphries, director-general *of the British Chambers of* Commerce, says: "There should be a right for government agencies to intercept e-mail just as they can do with mail or phone calls in certain circumstances. But I do not see that the law should be extended any further than that.

"You do not need a licensing regime for that purpose. It could be dealt with in the law that covers national security." Roger Till, director of the trade organisation E-centre UK, warns that an inflexible law could make the UK a less attractive country in which to set up an electronic business.

Civil liberties campaigners object most strongly to the so-called key recovery, or key escrow, provision. They say it is too intrusive. There has been particularly vocal opposition to the proposal to make it an offence to alert a user that government agencies are intercepting its data.

Ronald Rivest, co-inventor of the world-standard encryption algorithm RSA, writing last year in the magazine *Scientific American, said* that "democracy depends on the ability of citizens to share their ideas freely, without fear of monitoring or reprisal; this principle should be upheld as much in cyberspace as it is in the real world."

Others question whether the proposal is workable. Peter Agar, deputy director of the Confederation of British Industry, says that the key escrow proposal is "technically very difficult, if not impossible" and would be sure to inhibit the growth of e-commerce.

Some also argue that trusted third parties will be taking an incalculable risk by offering to guarantee the security of Internet transactions. They could face legal actions for huge damages if a key to encrypted data is accidentally revealed, it is said. The third parties may, therefore, need wide-ranging and expensive insurance policies to enable them to undertake the task.

Many countries face the same dilemma in balancing the requirements of governments and business. Even *within Europe, there are* significant differences of tone. The Netherlands and the Scandinavian countries appear to prefer a liberal regime, while Germany and Italy have been more concerned about imposing rules, though the German licensing regime is not linked to key recovery.

Lionel Jospin, the French Prime Minister Lionel, recently announced a reversal of policy to favour a voluntary licensing regime with no special government rights to decrypt. Some countries, such as Australia and Canada, are taking a notably more pro-business view than the UK in their new laws and regulations.

The US has followed a policy of restricting encryption technology exports, but there are no internal controls on its use and attempts to introduce legislation on a licensing regime have become stalled in the government machine.

DIGITAL SIGNATURES by George Black

A key way to help the spread of e-commerce

Many parts of Europe and the US have already legalised digital signatures, but the process is taking longer in Britain

The idea of giving digital signatures equal status with ink-on-paper sounds brilliantly simple and an obvious way of boosting the spread of electronic commerce. Already, most European states and many areas of the US either have digital signatures on their statute books or are in the process of doing so. In Britain, digital signatures will be given equal status with ink signatures under proposals put forward by the government last year.

The fact is, of course, that people have been carrying out transactions on the Internet for several years without giving the slightest thought as to whether they have legally binding contracts.

But the situation is changing for two reasons: firstly, as e-commerce broadens its scope, it will extend from small-value items, such as books, to more expensive products such as cars. *People will, therefore,* be more concerned about the risks of deals going wrong.

Secondly, as e-commerce broadens, it will involve more deals between parties who do not know each other and have no reason to trust each other. So a system of verifying contracts through legally recognised digital signatures seems laudable. But in practice the plan is fraught with difficulties.

Digital certificates providing evidence for the reliability of signatures have been available in various forms around the world for the past two years, from companies such as Verisign and Globalsign. However, the legal status of digital signatures has been unclear.

Giving them the same weight as signatures on paper could be achieved by a single "enabling" clause or by making a couple of thousand changes to individual British laws – or by a combination of the two methods. The UK government has not yet stated how the goal is to be achieved. Commercial lawyers disagree over whether digital signatures are already legally valid or not – and if not, how they can best be made valid.

However, some other countries seem to have tackled the problem successfully. Around 30 US states, as well as Germany and Italy, have enacted legislation on the subject in the past few years.

Another difficult question is whether some contracts *should still* be required to be on paper format. Lawyers could make out a case for property deals and marriage and divorce settlements to be on paper only. The list of exceptions from the digital signature legislation could turn out to be a long one.

The government's proposal will be enacted in the electronic commerce bill, together with legislation for controlling encryption – which some experts say is a *mistake*, as it confuses two controversial measures. Some argue that there should be two bills, one on electronic commerce and another on national security.

Trustees

The trusted third party organisations which hold the keys to encryption will also be the trustees for digital signatures, under the current proposal.

The British government's idea is that most organisations embarking on electronic commerce will choose to use one of its licensing bodies because that will, among other benefits, guarantee the legality of digital signatures used in its transactions.

However, trusted third parties may be taking a big risk unless there is a limit to their liability, as is proposed by the European Commission. Some transactions will go wrong, due, for example, to a fraud or a breach of a credit limit. *Who carries the* liability in that situation remains unclear.

Critics of the proposed legislation say that it could shift the onus of proof from plaintiff to defendant – it would be presumed that a digital signature was valid unless proved otherwise. A consumer would be compelled to show that a signature was not his in order to escape payment for goods or services which it was *alleged* that he had purchased.

It could also create different levels of guarantee for signatures, which would be undesirable.

Different countries are *taking different* approaches to the policy, the technology and the regulation of digital signatures. This could produce a situation in which different laws prevail around the world, and even within the European Union, undermining the uniformity which is needed for electronic commerce.

The European Commission published a draft directive on the subject last year, but it could be several years before it is finalised and translated into national laws.

Germany has expressed doubts about the draft directive, which it sees as too loose on consumer protection. This looks like delaying the progress *of* the much-needed directive.

"Where consumer protection becomes involved, it makes for legislative deadlock," notes Robert Carolina, a partner in the London law firm of Tarlo Lyons.

The German authorities also wanted to include in the directive a schedule on the type of technology which could be used to confirm the authenticity of a signature.

This view was supported by the French, who saw the potential advantage for their smart card industry. But the UK government argued that legislation should be "technology-neutral" – people should be able to use whatever systems accomplish the task.

Return to favour for hard-line approach

After nearly four decades in power, president Fidel Castro is still very much in control, write **Richard Lapper** and **Pascal Fletcher**

Satisfying the expectations or wishes of its western neighbours has never been a priority for Cuba's leadership, and those who have warned that change will come about only slowly have not been proved wrong by latest events.

Hopes for a genuine democratic opening in Cuba, initially kindled by the historic visit of Pope John Paul II to the communist-ruled island last year, appear to have been dashed for the moment by a government clampdown on internal opposition.

During the last few weeks, this has included the introduction of tough, new anti-subversion legislation, a warning temporary round-up of anti-government dissidents and the trial and public vilification of four prominent opponents of the regime.

At the same time, any lingering optimism that Cuba's cautious adoption of some capitalist-style reforms might lead soon to a full-scale economic opening in the short term also seems to have dissolved. This caps an apparent trend over the last two years towards an increasingly nationalistic and defensive posture in relation to foreign investment and participation in the economy.

The island's irrepressible 72-year-old president Fidel Castro appears, once again, to be hunkering down in the bunker of hard-line socialism, spitting fire and brimstone in equal measures against both his political arch-enemy, the US, and against all other external

President Fidel Castro: still firmly at the helm AP

pressure for faster change.

"We are defending a trench for Latin America and the world...we will use all legitimate measures," Mr Castro told the National Assembly last month after it had approved the new anti-subversion law.

Several factors explain this renaissance of hard-line socialism – nearly 10 years after the fall of the Berlin Wall. First, the limited opening to the market and foreign investment has allowed Cuba to stem the steep decline in its economy that followed the collapse of the Soviet Union and the disappearance of the island's main market and source of financial aid.

Against expectations, the government has restored a measure of economic stability and even recovered some of the ground lost during the early 1990s. "We have been able to keep the economy growing in the worst circumstances," says Francisco Soberón, head of the central bank. "The test that we have been more or less right is that we are still here."

This has been achieved through a combination of tough fiscal and monetary policy. Growth has been fuelled through the legalisation of the use of the US dollar in Cuba, the promotion of dollar-based tourism and of a parallel dollar economy around it. Since falling by about a third between 1990 and 1994, the economy has subsequently grown by a cumulative 13 per cent in the years since then.

Against this background, developments in the former Soviet Union and the former socialist countries of eastern Europe have strengthened the determination of Cuba's leaders to hold firm to socialist principles. The economic difficulties of Russia and eastern Europe have been widely broadcast by the Cuban media. "We don't want the kind of terrible transition they had in eastern Europe. They went faster than they could absorb. We have gone a little more slowly," says Mr Soberón.

The financial crisis in South-East Asia and Latin America has further reinforced official prejudices, providing evidence of what president Castro sees as the failures of free-market economics and prompting him to launch a crusade against "neo-liberal" globalisation.

More narrowly, Cuban policymakers say that events in the international economy have shown that Cuba was right not to adopt some of the liberal measures suggested by foreign friends and advisers five years ago, such as the full convertibility of the peso. "Lots of people advised full convertibility but it would have been a serious mistake," argues Mr Soberón. "Present arrangements give us a lot of protection. We are not afraid of speculators."

In any event, the government believes it is less dependent on external capital flows than it was in the early 1990s and can take a much more discriminating approach to foreign capital.

Loans, rather than equity, are the immediate objective although foreign bankers say that this new confidence has made dealing with the Cuban authorities increasingly difficult. "Since 1996, the pragmatism has become less generous as the economic recovery has enabled them to cut very tough deals," says one European banker.

In spite of the economic opening, relations with the US have not significantly improved and may even be taking another turn for the worse. Although increasingly criticised by European and American leaders, the US economic embargo was reinforced by the Helms-Burton legislation of 1996 – which threatens sanctions on international companies trading and investing in Cuba – in direct retaliation for the shooting down by a Cuban fighter of two small US-registered aircraft.

Even modifications to the embargo announced in January this year by president Bill Clinton have been viewed in official Cuban eyes as more of a political threat than an easing of sanctions.

These recent changes make it easier for US citizens to send money to Cubans and they propose increased flights and direct mail to the island. But Cuba's government has argued that, by seeking to strengthen non-governmental institutions and civil society on the island, the latest US package of measures has subversive political goals that justify last month's crackdown on opposition. Along with a tough anti-crime law, Cuba's National Assembly passed a defensively-named "Law for the Protection of National Independence and the Economy" which threatens jail terms of up to 20 years for those judged to be helping in any way the hostile US policy against Cuba in any of its manifestations, whether this be the Helms-Burton law, "economic war" or "subversion".

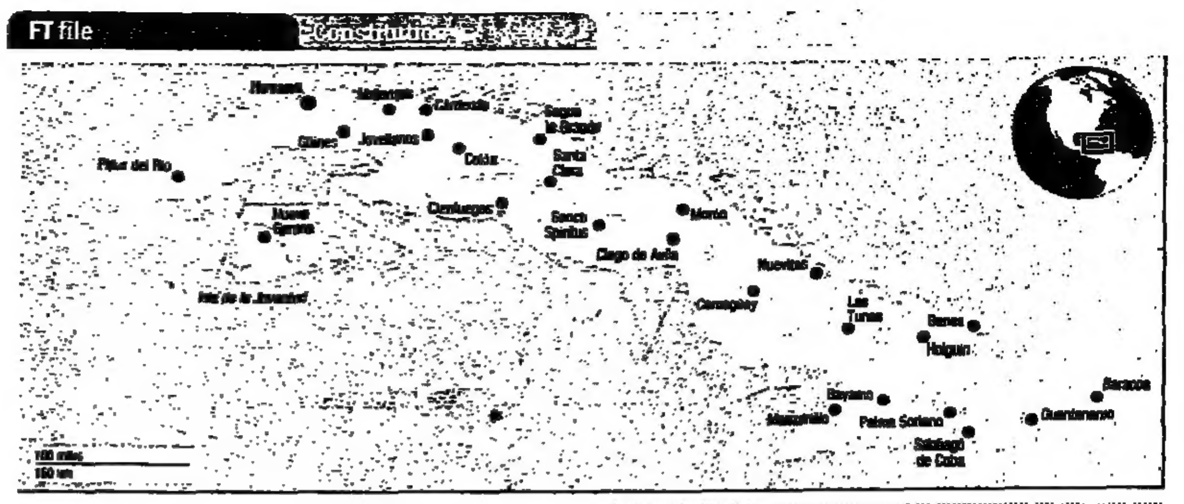
The wide, catch-all wording of the new law, which penalises the search for sensitive information, the possession of "subversive" material and hostile collaboration with radio, TV and publications, is believed to be specifically targeted against internal dissidents and independent journalists who have increasingly been sending critical articles and commentaries abroad, especially to the US.

Confirming the new tough line, the authorities held a one-day closed trial on March 1 for four leading moderate dissidents who had been held in custody for more than 19 months.

The Cuban leadership's attitude raised questions about the prospects for a planned visit to Cuba this spring by King Juan Carlos and Queen Sofia of Spain. And if, as seems most likely, the four remain in jail, this may well also cause foreign governments such as Canada to re-evaluate their diplomatic and economic ties with the island. Without a

Continued on next page

FT file



- **Area:** 110,860 sq km
- **Language:** Spanish
- **Population:** 11.1m (1998 estimate)
- **Main towns & population** (1997)
  Havana (capital) 2,200,000
  Santiago de Cuba 440,000
  Camaguey 293,000
- **Currency:** Peso (Ps)
- **Exchange rate:**
  Offical rate at par with the dollar.
  Unofficial rate, for non-commercial domestic transactions only, introduced in 1995.
  Rate at end 1998: Ps21 per $

Constitution

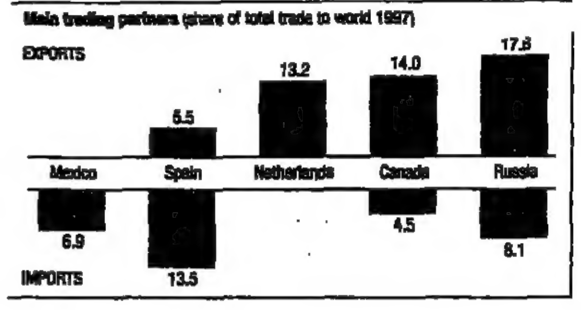
- **Official name**
  Republic of Cuba
- **Form of government**
  Centralised political system with close identification between the Communist Party and the state
- **Head of state**
  President, currently Fidel Castro Ruz
- **The executive**
  The Council of Ministers is the highest executive body; its Executive Committee is composed of the president, the first vice-president and the vice-presidents of the Council of Ministers
- **National legislature**
  National Assembly of People's Power; 601 members elected by direct ballot
- **Legal system**
  A People's Supreme Court oversees a system of regional tribunals; the Supreme Court is accountable to the National Assembly
- **National elections**
  January 11 1998 (provincial and national assemblies); next elections due in January 2003
- **National government**
  The organs of the state and the Communist Party are closely entwined and power devolves largely from the Executive Committee of the Council of Ministers
- **Main political organisation**
  Partido Comunista de Cuba (PCC)

Source: Economist Intelligence Unit

Economic summary

	1998 (est)	1999 (forecasts)
Total GDP ($bn)	18.4	n.a.
Real GDP growth (annual % change)	1.2	2.5
Inflation (annual % change in CPI, year end)	2.7	3.6
Hard currency external debt ($bn)	10.4	n.a.
Current account balance ($bn)	-0.3	-0.1
Exports ($bn)	1.8	1.7
Imports ($bn)	4.1	4.4
Trade balance ($bn)	-2.5	-2.7

Main trading partners (share of total trade to world 1997)



ECONOMY by Richard Lapper

The fightback goes on

Government officials say the country is gradually clawing back the ground lost in the deep recession of the early 1990s, with the peso now stronger against the dollar

For relaxation, Cuba's central bank chief, Francisco Soberón, likes to reread the economic classics – including a well-thumbed copy of Karl Marx's *Capital* – to see what light theory might throw on his country's problems.

The chances are, though, that even the founding fathers of economics themselves would be baffled by the peculiarities of Cuba's economy.

Official figures offer a defensively upbeat view. They suggest the economy has steadily recovered from the collapse of the Soviet bloc, the disappearance of 85 per cent of its overseas markets and the loss of more than $5bn a year in Soviet subsidies and aid.

Although last year gross domestic product grew a modest 1.2 per cent, the lowest growth in four years, government officials say the economy is gradually clawing back the ground lost in the deep recession of the early 1990s.

Judged in other terms, however, the economy is stagnating, kept afloat only by a buoyant tourism sector and dollar remittances from Cubans living in the US.

Examination of Cuba's external and fiscal accounts yields a generally positive picture. The current account deficit was reduced from $2.5bn in 1990 to $167m in 1996, mainly because of a sharp compression in imports.

But it widened again last year to about $450m, largely as a result of low prices for sugar and nickel, Cuba's most important commodity exports. José Luis Rodríguez, the economy minister, estimates that the fall in nickel prices cost Cuba about $70m in foreign exchange, with low sugar prices accounting for further losses of $55m.

Even so, with the government able to cover its deficit through foreign investment flows and short-term borrowing, albeit at painfully high rates, the peso has appreciated strongly against the dollar in response to a tight [illegible] talist finance minister proud.

Economic indicators

	1994	95	96	97	98*
GDP** ($m)	15,380*	16,208*	17,979*	18,882*	18,394*
GDP (Ps m at constant 1981 prices)	12,868	13,184	14,218	14,572	14,747***
Real GDP growth (%)	0.7	2.5	7.8	2.5	1.2***
Consumer price inflation (year-end; %)	n.a.	-11.0	-4.0	1.9	2.7***
Population (m; mid-year)	10.95	10.98	11.01	11.04	11.07
Merchandise exports fob ($m)	1,381	1,507	1,866	1,816	1,616
Merchandise imports fob ($m)	2,353	2,882	3,657	3,853	4,084
Current account balance ($m)	-260	-518	-167	-250	-327
Hard currency external debt ($m)	9,083	10,504	10,465	10,146	10,396
Debt-service ratio, paid** (%)	23.7	27.1	24.1	23.8	22.9
Official exchange rate† (year-end; Ps:$)	1.0	1.0	1.0	1.0	1.0***
Unofficial exchange rate†† (year-end; Ps:$)	60	25	19	23	21***

* EIU estimates
** There is no accepted exchange rate for conversion of local-currency GDP to dollar GDP. These EIU estimates are therefore based on a series of assumptions, and are subject to a wide margin of error
*** Actual
† The fixed official rate, which applies to commercial transactions for accounting purposes, is Ps1:$1. The convertible peso (Pc) was introduced at this fixed rate in 1995
†† A legal but "unofficial" exchange rate, for non-commercial domestic transactions only, was introduced in mid-1995 *Source: Economist Intelligence Unit*

While the government still buys dollars at the official rate of one to one, on the parallel official market – where ordinary Cubans exchange their dollars – the US currency is now worth 20 pesos compared to 150 pesos in 1994.

Order has also been restored to the government's own accounts. New taxes and a cut of about 70 per cent in subsidies for loss-making public firms have helped reduce the public sector's deficit to less than 3 per cent of GDP for the last three years, down from what Manuel Millares, the finance minister, describes as the "pornographic level" of 33 per cent in 1993.

In spite of budgetary restraint, spending on health and education has been increased in real terms. "We have tried to guarantee social fundamentals," says Mr Millares. "Our people are in a better condition than the majority of Latin Americans."

UN statistics, frequently cited by government officials, show that Cuba, in 1997, retained its position at or near the top of the Latin American league tables for social indicators with one of the lowest rates of poverty and illiteracy on the conti[illegible] ery has been the decision to legalise the free circulation within Cuba of the US dollar and the success of the country's tourism industry, which is at the core of the new dollarised sector.

Tourism has taken over from the country's sugar industry as the main motor of economic growth.

While sugar production has slumped for want of investment, tourism has been growing by nearly 20 per cent a year, well ahead of the growth rates experienced by other Caribbean countries.

Last year, 1.4m tourists, mainly from Europe and Canada, visited the hotels and resorts being developed by hotel companies such as Sol Meliá of Spain and Accor of France.

Indirectly, many of Cuba's estimated 160,000 self-employed and small businesses benefit from the inflow of tourists.

This policy, however, has had huge economic, social and even political costs. First, dollarisation has created a massive gulf in Cuban society between the estimated 50 per cent of the population who have access to foreign currency – mainly through remittances or self-employment but also through tourism and hard currency incentive schemes [illegible] economy and make do with extremely low nominal peso salaries.

Whereas a wide variety of consumer goods are available in the government's dollar shops, few are available in pesos. Small-time private entrepreneurs, both legal and clandestine, can often earn more than state workers, such as doctors or teachers, who are unable to access dollars.

"It creates inequality, which we don't like," says Mr Soberón.

All this undermines the social cohesion that has been a feature of Cuba since the Revolution, and has encouraged the growth of crime and prostitution.

The dual economy has also spurred the growth of a big informal sector, which, according to some estimates, is now twice the size of the formal sector.

Indeed, the informal economy is now so extensive that it threatens to undermine efforts to increase efficiency in the formal state sector.

Although Mr Rodriguez claims 81 per cent of state companies are now profitable compared to 29 per cent in 1993, these claims are dismissed by foreign observers.

"I don't see how you can make these companies efficient when stealing from the firm is a central part of [illegible]

Check mate: two workers relax with a game of chess in the colonial Old Havana, a densely populated district in the capital AP

Renaissance in socialism

Continued from page 1

turnaround in policy, Cuba may face a sharp chilling of what one Havana-based diplomat called the "warm and fuzzy" international atmosphere around the island, originally created by Pope John Paul's visit in January 1998.

In spite of widespread foreign criticism, some investors are sympathetic to the government's plight. "When you compare Cuba to Russia, they've done pretty well," says a European banker, pointing out that "all the pathways towards something different are fraught with danger and none of the destinations are demonstrably better for most people".

The problem, though, from the point of view of Cuba's longer-term political stability, is that the hardline approach is coming at a time when Cuban society is perhaps more divided than at any time since the Revolution in 1959.

Although the government claims health and education spending has been increased during the last four years, the dollarisation of the economy has created enormous divisions between the workers who survive in the peso economy and the more than 50 per cent of the population who have access to dollars, either through remittances, dollar-denominated bonuses paid by state companies, the trickle-down effect of foreign tourism and business, or through activities in the fledgling self-employed sector.

To complicate matters, many of those hardest hit by dollarisation are professionals, such as teachers and doctors, who have been strong supporters of president Castro and whose work is most highly valued by the government. "We're vulnerable to all that we are opposed to ideologically, but it is the only way we can confront the problem at the moment," says Manuel Millares, the finance minister.

So far, these tensions have been reflected in growing crime, including endemic theft from state factories, and a continuing outflow of emigrants, including many of Cuba's most valued professional workers.

Cubans are voting with their feet. About 20,000 people leave Cuba legally for the US each year, joining the estimated 2m Cubans already living there.

According to some critics, as the contradictions and inequalities within Cuban society become more and more acute between their lives at home and the fortunes of Cubans who live in the US, the government's political support will be undermined further. A recent report by the Council on Foreign Relations, a New York-based think-tank, said that the "regime has lost the struggle for the hearts and minds of Cuba's youth, few of whom long for a future under Cuban style socialism".

One major question that remains unanswered is who, and what, will succeed Mr Castro when he dies or steps aside for whatever reason. Despite perennial rumours of ill-health, the veteran Cuban leader still appears to be firmly at the helm of the island's socialist Revolution. He seems set to lead Cuba into the next millennium after being reconfirmed as Communist Party First Secretary by an October 1997 party congress and being re-elected as state president in February the following year.

Although his brother, Armed Forces Minister Raúl Castro, is five years his junior, and is his logical successor in the Cuban political hierarchy, he is not generally seen as possessing the same nationally unifying charisma and authority as Fidel.

One widely-held theory holds that Mr Castro's departure will see the emergence of a more collective Cuban leadership. This could include younger figures who have already made their appearance in Cuba's political landscape, such as vice-president Carlos Lage, widely seen as the main architect of the country's economic strategy, veteran international diplomat and National Assembly president Ricardo Alarcón and even the island's feisty, globe-trotting foreign minister, Roberto Robaina.

Optimists believe that if conditions were right, such a leadership might adopt a more reform-minded approach, perhaps achieve normal relations with the US and even direct the island towards western-style democracy and a more market-oriented economy.

The pessimists' view is that the exit of the legendary "Commander-in-Chief" could leave a dangerous vacuum vulnerable to social unrest and internal divisions between reformers and surviving hard-liners.

And the more the ageing Mr Castro and his die-hard supporters tighten their grip on power – as recent events show them inclined to do – the more the uncertainty about the future may grow.

REAL ESTATE by Pascal Fletcher

Investors eye property marketplace

With an abundance of land – and many sites – available for development, foreign interest has been strong

Whether they are tourists looking for a holiday home or businessmen with an eye on investment opportunities, more and more foreign visitors to Cuba are asking about the possibility of owning or building property on the communist-ruled island.

Of all the sectors of the economy opened up to potential overseas investment by the 1995 Foreign Investment Law, real estate has perhaps generated the most intense interest. But it is also a sector in which the Cuban authorities have proceeded with a slowness and caution seen by some impatient investors as excessive.

More than three years after the general 1995 investment legislation was approved, only 13 real estate joint ventures have been approved, of which only two are known to have completed construction to date.

The contracts signed involve investors from Monaco, Spain, Italy, Britain and Israel. Of these, two involve commercial office projects, while the rest are for residential buildings, mostly apartments.

In addition, two Canadian groups, Leisure Canada and Cuban Canadian Resorts International, have signed separate multi-million-dollar deals with a Cuban state hotel chain to develop luxury beachside hotel and resort facilities around the island, including plans for holiday time-share units and wholly-owned condominium sales.

A further 50 to 80 real estate investment projects are reported to be under negotiation or at the proposal stage, a figure which reflects the strong foreign interest.

But after working for more than two years on specific legislation for real estate investment, the authorities still have to introduce the promised law, which will codify such key issues as ownership and sale rights. Nevertheless, freehold ownership rights for buyers are understood to be already enshrined in the existing joint venture contracts.

"With or without the law, the investors are here," says Ibrahim Ferradaz, Cuba's foreign investment minister, pointing to the 13 completed, ongoing or approved real estate projects. He describes the legislation being drafted as "complex" and says it would come into force "when it is ready", without specifying a date.

Few foreign investors would dispute that Cuba potentially represents an attractive market as far as property development is concerned.

"Cuba is land-rich. It has been kept in hibernation for years, so you have all these land sites sitting around for the picking," says Stephen Marshall, the British president of the first foreign real estate agency in Cuba, RE/MAX Havana. Formed as a joint venture with a Cuban company, this Havana office of the international real estate franchise RE/MAX will market new apartment and office units in Cuba.

Foreign demand for modern homes and offices in Cuba has increased

Foreign demand for modern homes and offices in Cuba has increased as a direct result of growing foreign tourism and business. Potential home-owners are attracted by the island's year-round warm climate, its reputation as a still unspoilt tourism destination and the relative absence of violent crime.

But anyone who thinks that the cash-strapped Cuban government is rushing to sell off choice tourist and residential sites, slices of beachside land and run-down colonial mansions at bargain prices is mistaken.

The Cuban property market remains a restricted one. For example, foreign nationals cannot freely buy from private Cuban home owners, although reports of clandestine property deals involving foreigners are widespread.

As in the tourism sector, the government is generally not selling existing property to foreign investors. But they are being allowed to form joint ventures with Cuban companies either to refurbish existing buildings, or to build new ones. The resulting modern offices or apartments are then offered for sale or rent in hard currency to foreign nationals or companies.

For example, a historic commercial building in Old Havana, the 88-year-old Lonja de Comercio, was refurbished and modernised in an $18m venture involving the Spanish financial group, Argentaria. Foreign companies and embassies are now renting office space there.

Another ongoing commercial real estate joint venture involves an Israeli investor, BM Group. This $200m 10-year project foresees the construction of a major international business centre in Havana's Miramar district. The first two six-floor office buildings of the Miramar Trade Centre are expected to be inaugurated soon.

Two residential property ventures, one recently completed, have already been selling units to foreign buyers, who pay for their homes in instalments that match the completed construction stages.

The Monte Carlo Palace, a brand-new 31-apartment complex situated on Miramar's Fifth Avenue, is understood to be sold out. It belongs to Real Inmobiliaria, a venture between a Monaco-based company, Pastor, and Lares SA, a Cuban real estate company. Another apartment block is being built by the same joint venture nearby.

Work is also under way on a separate 175-apartment complex, also on Fifth Avenue, being constructed by Costa Habana, a joint venture between Lares and a Spanish company, Residencial Miramar, part of the Madrid-based Espacio 2000 group. These units are also on the market.

Lares, part of Cuba's Cubalse hard currency corporation, also has a joint venture with another Spanish company to build apartments in Havana.

A British investment company that focuses on Cuba, Beta Gran Caribe, has formed a Guernsey-registered firm, Caribbean Property Corporation, to develop residential real estate on several sites. Its joint venture with Cuba's Cimex corporation, called Trinidad SA, is due to start work this year on a luxury 74-unit apartment block in Miramar.

SUGAR by Richard Lapper and Pascal Fletcher

Bitter taste from loss of customers

Cuba's sugar industry, for so long dependent on the Soviet Union, has seen production fall to its lowest level in 50 years

Nelson Labrada, Cuba's vice-minister of sugar, sums up his industry's initial response to the economic changes of the 1990s as "insufficiently revolutionary".

The collapse of the Soviet Union, Cuba's main market for more than three decades, triggered a steep decline in the Cuban sugar industry, with production falling last year to its lowest level in 50 years.

The slump was all the more acute because as well as being Cuba's biggest customer, the Soviet Union also supplied fertilisers, agricultural machinery and fuel and financing. As a result, Cuba has lost its place as the world's largest exporter of raw sugar – and sugar has now been overtaken by tourism as the island's biggest single source of hard-currency revenue.

"The sector wasn't quick enough to react to new conditions," said Mr Labrada. The shortages of fuel, fertilisers, spare parts and other inputs in recent years were aggravated by unusually bad weather and over-intensive exploitation of the crop, leading to a sharp fall-off in productivity.

"Instability has been the main characteristic of the industry," says Mr Labrada.

The government is now hoping to rebuild the sector. More than a year ago, it brought in one of the island's highest-ranking military officers, General Ulises Rosales del Toro, to take over the sugar ministry. He has announced the industry will stop straining for unrealistically high output targets and concentrate instead on raising levels of efficiency throughout the chain of production, from field to factory.

A series of measures has been taken to achieve this. General Rosales has given strict orders that, unlike the practice of recent years, mills must husband cane reserves for the future crop by harvesting mature cane only and leaving growing young plants uncut.

Although the government has stopped short of permanently closing any of Cuba's 156 sugar mills, many of which are filled with old and obsolete equipment, 43 will not operate in this year's harvest, either because they are inefficient or because of shortages of available cane.

About 10,000 of the 80,000-90,000 workers who work in areas such as transport and maintenance are being offered new jobs elsewhere in the industry. Producer prices have been increased for supplies of raw cane, with cane growers who produce better quality cane offered a premium. Top officials at the sugar ministry have been replaced, in some cases with army officers like the minister.

But recovery will be a tall order. Sugar production has slumped from between 7m and 8m tonnes in the late 1980s to 3.2m tonnes announced for 1997-98.

Last year's harvest, the lowest in at least 50 years, was described as a "catastrophe" by Mr Labrada. It was particularly low because of over-harvesting in previous seasons, when the central government needed to increase sugar production to be able to use sugar as collateral for general purpose loans. Under pressure to increase output, farmers cut immature green cane which should have been left to ripen for future crops.

"We had to provide sugar we didn't have and we had no room for manoeuvre," he says. Severe drought during planting from November 1997 and unseasonably heavy rainfall during the harvest period itself last year made things worse.

As a result of the slump in the sector, the area dedicated to sugar cane has fallen from about 1.7m hectares in the period between 1986 and 1990 to a current level of between 1.3m and 1.4m hectares. Productivity has fallen from levels of 60 tonnes per hectare in the 1980s to an average of only about 40 tonnes per hectare.

Only in the independent farmers sector, which accounts for about 5 per cent of the total production, does productivity approach levels that are typical in Brazil or Australia.

The government, seeking to lay the foundations for a steady but sustained recovery, has proposed a modest production increase for this year's harvest, which is already in full swing. Total output for 1998-99 is forecast at 3.6m tonnes, 400,000 tonnes more than 1997-98.

The sugar ministry has set an export target for this year of 2.95m tonnes, revised downwards from 3.22m forecast in September.

The change, based on a revision of original field estimates, appeared to take into account damage inflicted on canefields, especially in the east, by Hurricane Georges last September and an earlier severe drought.

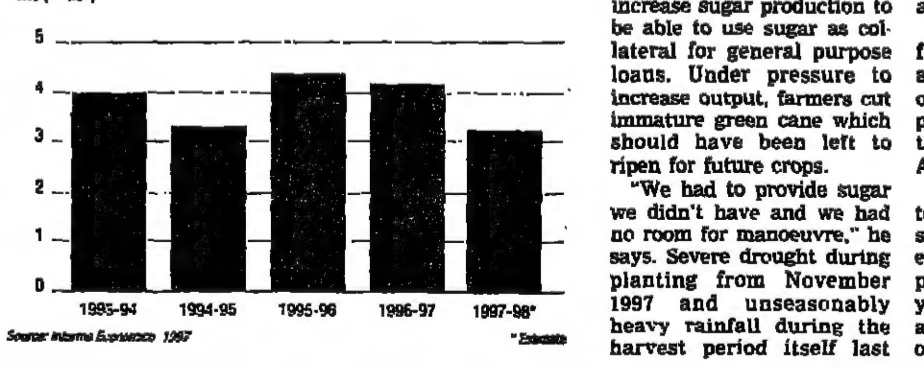
Most foreign analysts accept the Cuban sugar sector should show some improvement this year, but they are generally cautious about the size of the forecast recovery. Some see a 1998-99 harvest in the region of 3.3m tonnes.

Although raw sugar production will remain under state ownership, the government is seeking to attract foreign capital to the sector by offering joint ventures in derivative product areas, such as alcohol and animal feeds. In the sugar sector itself, the authorities are offering foreign companies that finance output the opportunity of managing some production, although the precise terms of this are not clear.

Another priority is to extend the terms of financing for up to two years, which would allow for greater stability and more effective planning. At present, most money advanced by international brokers and banks in the form of harvest pre-financing is repayable within a year.

Cuban officials say between 25 and 50 per cent of the harvest is financed from abroad. This is believed to be mainly from Europe.

Sugar production
Tons (million)



Source: Informe Economico 1997 · *Estimate

Chop, chop: the harvesting of sugar cane in progress at a plantation outside Havana AP

FOREIGN INVESTMENT by Richard Lapper

Ambiguous stance towards attracting big guns

The government's more open approach to investment by overseas companies seems to have met with only limited success, and is now tinged with greater caution

Perhaps in no other area of Cuban policy is there so much ambiguity as in the government's attitude towards foreign investment.

Cuba needs the technology, markets and, above all, the capital that foreign investors bring but it is determined to cling to socialist and nationalist principles and stand firm against the new free market orthodoxy of privatisation.

As one of the political billboards dotted around Havana puts it: "Lo nuestro es nuestro" (What is ours is ours). It is perhaps for that reason that Ibrahim Ferradaz Garcia, the foreign investment minister, is so reluctant to disclose details of how much capital foreign companies have actually invested in Cuba either since the country really opened its doors to overseas investment in 1990 or even over the more limited period after the introduction of a new foreign investment law in 1995.

"I have the figures but I'm not giving them," he says. Mr Ferradaz is only prepared to acknowledge that Cuban state companies have signed up to 350 economic deals with foreign companies, including joint ventures and other forms of association. Sixty such deals were signed last year, he says.

Among the biggest are a range of agreements in the tourism sector, where foreign hotel chains and real estate developers are committing hundreds of millions of dollars in hotel investments. But outside the tourism enclave, the majority of the deals appear to be small. Under the 1995 law, foreign companies are permitted to own 100 per cent of Cuban investments, but so far only one deal has been agreed on these lines: a $15m electricity generating plant based on the Isla de Juventud.

Similar uncertainty surrounds the fortunes of Cuba's experiment with free trade zones, where goods are imported free of import duty and are either held in bonded warehouses or used as inputs for manufactured products that are then exported.

Although about 33 companies are said to have signed up to produce in the three free trade zones, only "five or six" are actually functioning. One of these, somewhat bizarrely, is an Italian company using the Berroa free trade zone as a base for growing tomatoes for export.

"The natural market is the US but this is closed. The big European companies haven't arrived," laments Octavio Castilla, who works with the National Office of Free Zones in Havana. He concedes that infrastructure is deficient and marketing ineffective.

All this suggests that the government's more open approach to foreign investors – introduced as part of a more general economic liberalisation in the mid-1990s – has met with only limited success. In part, that is because the government itself, although always ambiguous, appears to have become more cautious and even defensive in its investment policy.

Several factors explain this shift. For one thing, the financial crises in Asia, Russia and Brazil have reinforced official scepticism about the merits of the private sector in general and foreign capital in particular.

As recently as January this year, president Fidel Castro himself bluntly told delegates at an international conference on globalisation that: "We want the minimum of foreign ownership and capital in this little island called Cuba."

In addition, the limited economic recovery since 1994 has made the government less dependent on support from outside. Carlos Lage, a vice-president, said last year that Cuba was in a position to be more selective on the investment entering the country and recommended greater government control.

"In the first few years of opening to foreign investment," he told Granma, the official daily newspaper, "the task was to receive those who offered, but more recently this tendency has changed and (we have to) direct energies to facilitating, promoting and attracting the kind of foreign investment that's needed."

Foreign bankers say that Cuban policy places more emphasis on loans rather than fresh equity investment, even though capital inflows are required to meet the current account deficit. "They think they have done enough and they want to move to a stage where people just lend them money rather than invest," says one European banker.

At the same time, outside the tourist sector at least, foreign investors themselves are becoming increasingly wary. Cuban officials are winning a reputation as very tough negotiators who will not shrink from striking the best possible deal for themselves. "Since 1996, the pragmatism has become less generous. The economic recovery has enabled them to cut some very tough deals," says the same European banker, adding: "It is very difficult to invest money sensibly in Cuba. I wouldn't touch some of the deals on offer with a bargepole."

Deals also take longer to agree than elsewhere in Latin America. Even a simple transaction, such as a truck lease, might take up to nine months to complete compared to three or four weeks elsewhere. Terms and conditions imposed by the Cubans also compare unfavourably. In particular, companies investing in the island have no real control over recruitment because existing labour laws stipulate that Cuban intermediary companies do the hiring and firing of workers for foreign joint ventures.

This means some foreign companies can often end up with unsuitable personnel or are unable to hire the people they really want. "Most people, when they are confronted with the terms of the joint-venture, say 'wouldn't time and energy be better spent elsewhere'," says another European banker. "Terms are typically 50/50 but the Cubans put up the land and a clapped out building and the foreign partner the cash and the expertise."

For many bigger companies with operations in the US, the Helms Burton legislation of 1996 further complicates matters. The legislation strengthens the US embargo by imposing sanctions on companies that "traffick" in property confiscated from the US after the Revolution. In practice, the legislation, which threatens to bar entry to the US for executives whose companies are judged in violation of the law, has been only sparingly and selectively implemented, but compliance poses a headache for companies considering Cuban investments, adding to costs.

"They spent five minutes talking about the business we were about to invest in and 25 minutes about whether they would be able to go to Disneyworld or not," adds the same banker.

In some areas, too, Cuba's own legal framework leaves much to be desired. Although a handful of real estate transactions have been completed a long-expected property law which would reinforce the rights of private owners has still to find its way onto the statute books, after a wait of more than two years.

Cuba, then, is not for the naive or the fainthearted. "If you know the ball game and you are one step ahead, you can make money," explains one developer. "The problem is that some people are wet behind the ears and will get burned. This is like the Amazon, the Wildwest."

TOURISM by Richard Lapper

It's back on the road to prosperity

Hotel accommodation has risen from 12,000 rooms in 1990 to 31,000 today, with tourist arrivals topping 1.4m last year

Halfway along the main road linking Havana with Varadero, Cuba's tourism capital, choice beachside locations once occupied by workers' holiday camps are now being earmarked for development by international leisure companies.

The luxury of the new hotels either under construction or being planned is in sharp contrast to the dilapidation of the spartan concrete chalets designed for Cuban proletarian campers, and neatly highlights the importance attached to international tourism by Cuba's authorities.

Forty years after the first revolutionary government swept away the casinos, night clubs and brothels that made the island a big attraction for US tourists, Cuba is once again emerging as one of the Caribbean's most popular holiday destinations.

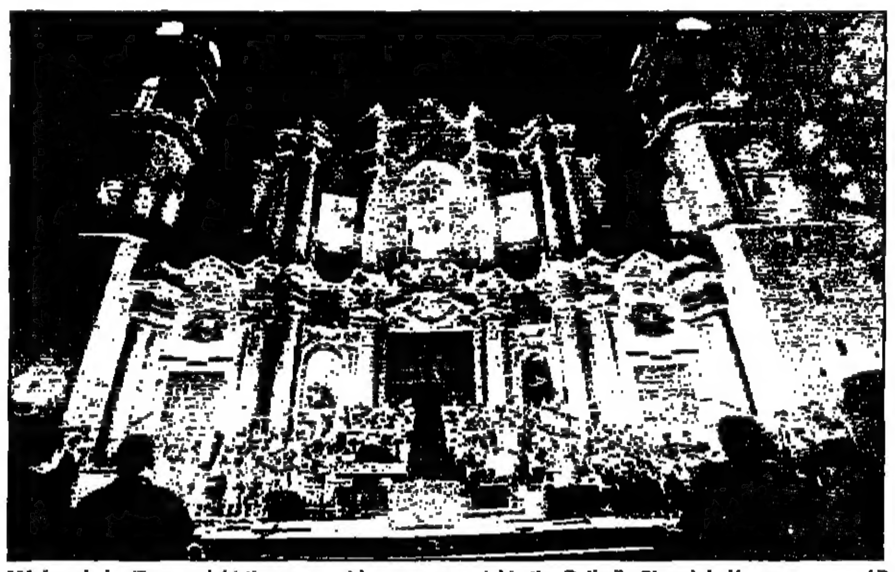
And whereas, in the 1950s, tourism was merely an adjunct to an economy dominated by sugar, tourism of the 1990s has become the single most important motor of the economy. Since the legalisation of the dollar sector of the economy in 1993, tourist arrivals have surged from 546,000 in 1993 to 1.4m last year and a projected 1.7m in 1999.

Accomodation capacity has increased from 12,000 hotel rooms in 1990 to 31,000 today, of which just over a third are managed by foreign companies. Cuban officials say the sector has been growing at a rate of 18 per cent a year, well above the average for the Caribbean.

"Tourism is the most dynamic sector," says José Luis Rodriguez, the economy minister. One obvious benefit has been that tourism has, at least in gross terms, become the country's biggest generator of foreign exchange, with total gross dollar earnings amounting to an estimated $1.7bn in 1998. In addition, however, the sector's development has had a number of positive knock-on effects for the rest of the economy.

Many of the country's 160,000 self-employed workers and small businesses are in one way or another dependent on a thriving tourist economy. Paladares, the small family-owned restaurants that were legalised in 1993, draw much of their custom from tourists, for example, as do local artisans.

The government, though, has also used the tourism industry to promote greater efficiency among Cuban suppliers. Tourism companies are allowed to import supplies and those bought from Cuban companies are paid for in dollars. This means that Cuban businesses supplying food, furniture and other inputs, must produce to internationally acceptable standards. "There is room to substitute imports but the way to do this is to be competitive," says Mr Rodriguez.



Música al aire libre: a night time concert in progress outside the Catholic Church in Havana AP

Mr Rodriguez expects the total number of tourists arriving in Cuba to reach 2m by 2000 and at least 5m by 2010. And he is confident that the goal will be reached. "It should happen without major difficulties," he says, adding that last year the number of visitors to the island continued to grow in spite of a slowdown in the international economy.

The delays at hotel restaurants that once infuriated so many visitors have become less common as more and more hotels adopt buffet-style self-service arrangements. The government has also moved in the last 12 months to improve security by cracking down on prostitutes and hustlers, who had previously swarmed around Havana's main hotels.

There are fears in some quarters that this may reduce Cuba's attractions for some tourists seeking to spice their tropical holiday with sex. As one diplomat puts it: the government could be "killing the goose that laid the golden egg".

But Miguel Brugueras, deputy tourism minister, pledges that the clean-up will go on as Cuba tries to develop what he describes as "family tourism". He adds: "Prostitution is the enemy of tourism. We want healthy tourism and we will take all the measures that may be necessary to eradicate prostitution. It will disappear."

In addition, Cuba will need to continue to attract foreign investment to the island. It may first need to dispel concerns that poor promotion and marketing, as well as inflexible billing rules makes it difficult to fill hotels to capacity, even when foreign companies have full management control.

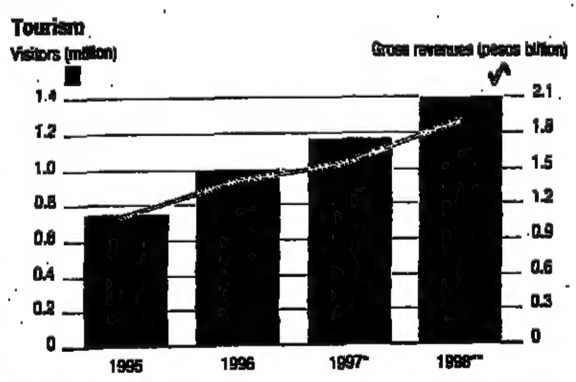
Government officials claim average national occupancy rates of about 60 per cent or upwards but some foreign observers believe they may be actually much lower or show considerable variation from hotel to hotel. Some businessmen also complain that the state companies that work with foreign businesses are too inflexible.

Nevertheless, the list of recent agreements signed between foreign companies and Cuban partners is impressive. Last October, Cuban Club Resorts, a joint venture between Cuban Canadian Resorts International and Gran Caribe, a Cuban state hotel chain created in 1994, signed a joint venture to build Cuba's first timeshare units in a development worth about $250m.

Another 1996 Canadian-Cuban joint venture teaming up Gran Caribe with Leisure Canada, plans to build six hotels at Jibacoa, on Cuba's northern coast, as part of an overall $400m 10-hotel investment project. A separate 250-room hotel and resort being built at Jibacoa will be run by SuperClubs of Jamaica, which already manages a clutch of hotels across the island.

Spain's Sol Meliá, which manages eight hotels and is the biggest foreign hotel operator on the island, announced last May that it would be taking over four more hotels currently under construction. In addition, Dutch, German, Italian and Mexican companies and investors are also active in the hotel business and others are checking out the opportunities.

Tourism



Source: Informe Económico, 1997 * Preliminary ** Forecast

BANKING by Pascal Fletcher

Platform for a solid two-tier structure

The state-owned sector is using joint venture alliances with overseas banks to tap international expertise and funds

Under the tutelage of Cuba's urbane and internationally-experienced Central Bank president, Francisco Soberón, the Cuban banking sector has been transformed over the past few years from a closed and highly-centralised Soviet-style model to a more modern and diversified two-tier banking system.

Until the collapse of the former Soviet bloc after 1989, which plunged Cuba into economic crisis, the island's banking structure had basically consisted of only three institutions, one of which was the central bank.

Ten years later, the sector boasts a streamlined, stand-alone central bank, seven Cuban commercial banks and nine local non-banking financial institutions. In addition, 17 foreign financial entities, 14 of them banks, have been allowed to open representative offices.

This is the result of a far-reaching reorganisation of the Cuban banking system launched by Mr Soberón in the mid-1990s. The new central bank, Banco Central de Cuba, was created in May 1997 and another decree law issued at the same time introduced updated banking legislation.

While the banking sector remains firmly in the hands of the state – foreign banks are not allowed to have fully-fledged, deposit-taking branches – Cuban banks have started forming joint-venture alliances with overseas banks to tap international expertise, markets and funds.

In October last year, the Cuban state savings bank, Banco Popular de Ahorro, joined forces with Spain's Caja Madrid to form the Coporación Financiera Habana (CFH), the first financial joint venture involving a foreign partner actually to be domiciled in Cuba. CFH joined three other financial joint ventures that have been providing mostly short-term loans in Cuba for about a year but are domiciled abroad. Two of these involve British investors, one the Commonwealth Development Corporation (CDC), Britain's development finance institution, and the other Beta Gran Caribe, a British investment fund specialising in Cuba.

Another Spanish savings bank, the Caixa de Galicia, has signed a letter of intent to set up a financial joint venture with the newly established Cuban bank, Banco de Crédito y Comercio (Bandec).

New Cuban financial entities created in the last few years include about half-a-dozen so-called casas financieras, non-banking financial institutions that are linked to specific ministries or economic sectors.

Created with a minimum capital of $2m, the casas financieras have licences to do general business. Their role is to act as financial intermediaries, channelling funds obtained from inside and outside Cuba towards productive activities, either in their own sectors or elsewhere.

One of the benefits of this expansion of the banking sector has been to increase the availability of funds within the economy. An acute shortage of hard-currency remains an important obstacle to Cuba's economic recovery, a problem compounded by the island's more than $10bn foreign debt and the continuing US trade embargo, both of which limit the island's access to medium- and long-term loans.

One of the most active foreign banks is ING of the Netherlands. ING has both a representative office in Havana and a Curacao-based banking joint venture, Netherlands Caribbean Bank, also represented in Havana, which involves Cuba's Banco Popular de Ahorro and Acemex, a Liechtenstein-registered Cuban finance and shipping group.

Mr Soberón goes out of his way to stress that the new Cuban banking system is solid. "In a world where banking systems have failed or are in crisis, in the Cuban system all the institutions have capital adequate to cover risk, there is no fraud and no corruption and they are carefully supervised," he says. Central Bank figures for the sector show a high loan recovery rate in which refinanced and non-recoverable loans are put at below 2 per cent of the total.

Foreign bankers credit the central bank chief and his reforms with having introduced a higher degree of financial discipline, especially in credit risk analysis, within the Cuban hard-currency banking sector.

They also see the lending market in Cuba as broadly split into two areas. There is a domestic level in which Cuban banks are able to offer loans to Cuban borrowers at cheaper rates of about 12 per cent. The other level, in which foreign lenders operate, involves higher rates in the region of 18-19 per cent or above that reflect "Cuba risk". One banker says: "The Cubans are quick to play foreigners off against each other."

Some lenders had started to use the Cuban casas financieras, a few of which were developing a reputation for financial strength and responsibility, as guarantees against which to lend to Cuban companies.

TOBACCO by Pascal Fletcher

Lighting up the world

Cuba enjoys a global marketplace for its renowned cigars – with the exception of the US and China

Like a 19th century European statesman-general plotting the expansion of an empire, Manuel Garcia of Cuba's state cigar seller, Habanos SA, proudly shows visitors a multi-coloured global map indicating markets where Havana cigars are sold around the world.

Only two areas remain unconquered and not coloured in: the US and China. Mr Garcia, Habanos' vice-president, says these are the only two major markets that have not yet succumbed to the march of Cuba's premium cigars across the globe.

And even these are under assault from the globe-trotting Havanas. Mr Garcia said his company was currently negotiating with authorities in China to see whether it could win entry to the Chinese cigar market, which is a state monopoly.

A longstanding US trade embargo against communist-ruled Cuba bars the sale of Cuban cigars in the US, the world's biggest market for premium cigars. But an estimated 6m Havana cigars find their way illegally into the US each year, smuggled in and bought by cigar connoisseurs willing to pay a high price for forbidden fruit.

Leafing through: women at a cigar factory in San Juan select the best tobacco leaves AP

Bolstered by a dramatic recovery in tobacco cultivation and cigar production during the last three years, Habanos is hoping to build further on Cuba's already world-famous reputation as a producer of hand-rolled luxury cigars. "We have to get the maximum out of our traditional markets," says Mr Garcia.

Supported by an estimated $60m to $70m a year of pre-harvest financing provided by major overseas clients, such as Spain's Tabacalera and Seita of France, Cuba sharply increased its production of cigars for export in 1998 to 160m, up from 100m the previous year.

By the end of last year, however, only 126m cigars had actually been physically exported, compared with 103m at end-1997.

Nevertheless, Mr Garcia says this still meant Cuba dominated the non-US world market for premium cigars where he estimated demand was currently running at about 150m cigars a year. He put demand in the huge US market – barred to Cuba – at 350m cigars a year.

"Our production for export has almost tripled over the last three years," says Mr Garcia. Cigars are now the island's third biggest hard currency export income earner after sugar and nickel, bringing in estimated gross earnings of more than $200m in 1998. For 1999, the island has set itself an ambitious production for export target of 200m cigars.

Traditionally, the finest Cuban tobacco that gives Havanas their distinctive texture and flavour has been grown in the Vuelta Abajo region of western Pinar del Rio province and in the Partidos region of Havana province.

But in a deliberate major expansion of the entire sector, tobacco is now being planted and grown in practically every province. The number of cigar factories has also leapt from about 17 a few years ago to about 44 now, distributed across the island.

Tests are even under way to see whether high-quality wrapper leaf or 'capa', that essential ingredient of a fine cigar, can be successfully grown in provinces other than Pinar del Rio or Havana, the historical producers.

Not surprisingly, this rapid expansion, which appears to be driven by a need to maximise hard currency earnings, has alarmed both connoisseurs and distributors of Havana cigars, who fear that the quality of the Cuban product will be affected and that its unique international image may suffer.

Cuban cigar industry officials bristle at suggestions that quality may have been affected. "There are bad cigars, but the level of rejection is minimal," says Mr Garcia. He adds that quality controls were being increased throughout the industry and 4.7m cigars were rejected as unfit for export at the production stage last year. "Smokers of Havanas need not be worried," says the Habanos vice-president.

Counterfeiting is another threat that worries both the Cuban authorities and foreign distributors alike. Seizures by Cuban customs of counterfeit or illegally purchased cigars have nearly doubled during the last two years. Mr Garcia says a new government seal of guarantee would be introduced to protect the authenticity of Cuban cigars for the consumer.

On the marketing front, Habanos was continuing with its strategy of creating home-grown trademark names – Cohiba, Vegas Robaina, Cuaba, Vegueros, Trinidad – that stressed the exclusive Cuban origin and 100 per cent Cuban content of the Havana cigar. A new brand, the San Cristobal, would be launched in November.

Amid some indications that the international craze for premium cigars may be peaking, especially in the US, Mr Garcia says Cuba would concentrate on increasing sales in existing markets.

Boosted by fast-growing tourism, Cuba's own domestic hard-currency market was Habanos' third biggest sales market in 1998, after Spain and France. Mr Garcia predicts this internal tourist market could overtake the French market this year.

Cigar boom: an export target of 200m has been set for this year AP

OIL by Pascal Fletcher

Expansion plans are in the pipeline

Daily production has tripled in the past seven years, but the country still needs to import 80 per cent of its requirements

"It may be heavy, but it's ours." This is how Cuban oil industry official Manuel Marrero refers with pride to the smelly, sulphurous heavy crude oil that Cuba, with the help of several foreign companies, is extracting from local wells.

Thanks to this help, Cuba's domestic oil production has more than tripled: from 528,000 tonnes (10,500 barrels per day) in 1991 to 1,678,000 tonnes (33,500 bpd) last year and the industry has set a production target of 2m tonnes (40,000 bpd) for 1999. The bulk of this is heavy crude.

The island is still forced to import about 80 per cent of its oil needs, mostly from Venezuela and Mexico. But it used locally-produced crude to generate 33 per cent of its national electricity in 1998 and hopes to increase this contribution to 42 per cent this year.

"Our goal is self-sufficiency," says Mr Marrero. This may seem like a fantasy, unless, of course, current exploration efforts achieve the fabled big strike of good-quality light oil that all oil prospectors dream about.

Such a find has eluded the Cubans and their foreign partners so far, although there have been three new discoveries of heavy oil.

The most recent was announced by Montreal-based Pebercan Corporation whose Canasi 1 well drilled in onshore Block 7 on Cuba's northern coast was reported to be producing about 1,500 bpd.

Pebercan's major shareholder is French poultry magnate Gérard Bourgoin, while French actor Gérard Départdieu also has a stake in the firm.

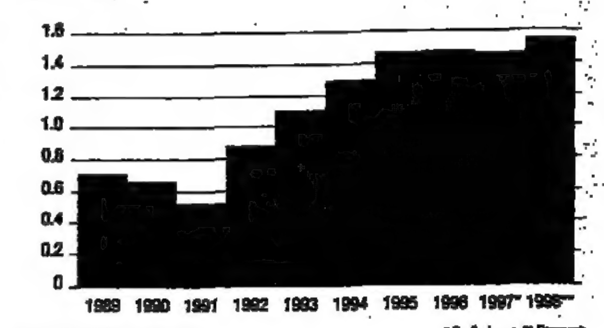
In all, nine foreign companies – five of them from Canada, the rest from France, Spain, Sweden and Brazil – are presently helping the Cubans to explore 20 concession blocks – four offshore, 16 onshore – out of a total of 45 earmarked for foreign participation.

The exploration results so far have been mixed and have yielded almost exclusively heavy oil. Besides Canasi 1, there have been two other heavy oil discoveries, one at Puerto Escondido and the other at Majaguillar, both on what Mr Marrero likes to call the north Cuban heavy oil belt.

The exploration programme for 1999 foresees the drilling of 10 test wells, all by the foreign companies. "We are at the moment of truth," says Mr Marrero.

Calgary-based Canadian firm, Genoil Inc, a subsidiary of Beau Canada Exploration,

Crude oil production



Source: Informe Económico, 1997 * Preliminary ** Forecast

is drilling this year in onshore Block 20 in south-east Cuba.

By far the most active foreign company operating on the island in risk exploration and production sharing agreements is Sherritt International of Canada, which produces about one third of the oil lifted from domestic Cuban wells and acts as operator in a lot of the exploration.

Last November, Brazil's Petrobras also joined the hunt for oil in Cuba, announcing it would use its deep-water expertise to explore offshore Block 50, which is 185 miles east of Havana.

Since foreign companies started working in the Cuban oil sector after 1990, a number have withdrawn for both technical and financial reasons. The most recent was Premier Oil of Britain, which pulled out in December after a well drilled on its Violeta prospect in onshore Block 21 tested dry.

Another British company, British Borneo, pulled out in 1997, as did France's Géopétrole.

Total of France, the first western oil company to sign a contract with Cuba in 1990, stopped its exploration activities in 1994 after failing to make a major find.

Cuban officials say $345m was invested in Cuba's oil sector in the last seven years, $226m in exploration and the rest in production. Investment in 1999 is forecast at $60m.

The island is now also seeking to utilise the resources of gas that exist in the heavy oil deposits. Raw gas production increased from a low 32m cubic metres in 1997 to 120m cubic metres last year.

This is expected to rise further to 450m cubic metres this year as new projects for use of the gas develop.

Sherritt and the Cuban state oil company, Cubapetróleo, are partners in a $150m gas-for-energy venture that is using Cuban raw gas from north coast wells to generate electricity.

Through contracts which place the risk costs of exploration firmly in the hands of the foreign companies, Cuban oil industry officials feel that they have nothing to lose in continuing the current strategy of squeezing every last drop of heavy oil out of existing wells and hunting for new deposits.

"It's worth it," says Mr Marrero.

MINING by Pascal Fletcher

Modernisation programme picks up pace

Cuba is determined to continue with its plans for expansion in this sector, second only to sugar in export potential

In spite of depressed market conditions, Cuba's metal mining sector is resolutely pushing ahead with plans to increase nickel and cobalt production to full capacity, modernise its processing plants and continue exploration for other base and precious metals.

Cuban officials and foreign mining experts acknowledge that recent low nickel and cobalt prices have squeezed profits, and that obtaining financing for mining investments in an exotic destination such as Cuba has become more difficult as a result of the world financial crisis and the Bre-X mining scandal.

But this does not seem to have dented Cuba's determination to develop its mining sector as much as is economically possible, and with the help of foreign companies where necessary.

Since the sector opened up to foreign investment after 1990, overseas companies, mostly from Canada, have been helping the Cubans to expand their nickel/cobalt and gold production and prospect for new deposits.

"The work is going ahead, it hasn't stopped," says José Cazanabe, director of international relations at Cuba's Basic Industry Ministry.

The island's overall nickel/cobalt production, traditionally its biggest merchandise export after sugar, rose to a new record of 68,000 tonnes in 1998.

This compared with just under 27,000 tonnes produced in 1994, when the industry was in the depths of a slump triggered by the [illegible] Union, formerly its main export market.

Nevertheless, depressed world prices for nickel cost Cuba more than $70m in lost export revenues last year, say Cuban officials.

Canada's Sherritt International Corporation, one of the biggest foreign investors in Cuba with a vertically-integrated nickel mining, processing and refining joint-venture, has also felt the squeeze of lower prices.

Its metals business earnings from its Cuba operations during the third quarter of 1998 showed a sharp fall from the same 1997 period, despite a rise in output. Despite the poor market conditions, the state-run nickel industry plans to continue lifting output in 1999 to about 73,000 tonnes, which will be approaching the total production capacity of the island's three working ore-processing plants.

One of these, Moa Bay, is operated by the Sherritt venture, while the other two, at Punta Gorda and Nicaro, are wholly Cuban-run.

"We are reaching a production ceiling but there is still a lot to do on the economic side, in terms of reduction of costs," says Mr Cazanabe. Planned improvements included greater modernisation and automation of the industry and its transport system and reductions in fuel consumption. Cuban officials insist the two 100 per cent Cuban-run plants, which have undergone technical modernisation financed by foreign, mostly European credits, remain profitable.

"The Cuban mining [illegible] easy accessiblity of the mineral ore which lies on the surface close to the plants. Nevertheless, some foreign mining analysts, noting the squeeze on Sherritt's Cuba metals' earnings from depressed prices, have questioned whether the Cuban-run plants can really be profitable under current conditions.

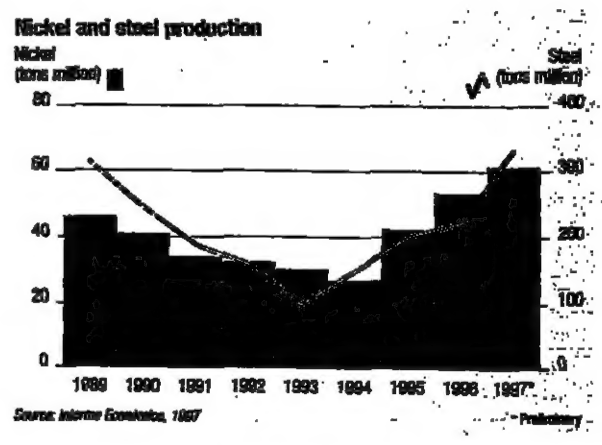
Mr Cazanabe says any decision to close down temporarily the Cuban-operated plants would be what he called a "political" rather than an economic decision.

> 'We are reaching a production ceiling but there is still a lot to do on the economic side'

He sees no impact from the depressed market on two major long-term joint-venture nickel projects in Cuba involving two Australian miners, WMC and QNI, the latter a subsidiary of the London-based mining group Billiton, which demerged from South Africa's Gencor.

Both WMC and QNI have signed multi-million-dollar deals to assess and, if viable, to develop large nickel deposits in eastern Cuba. WMC's joint-venture, Pinares, covers a big nickel/cobalt deposit, while the QNI venture, San Felipe Mining, [illegible] are now looking at how to exploit them effectively," says Mr Cazanabe. Both projects foresee the construction of ore processing plants and the Pinares venture includes a planned refinery.

Nickel and steel production



Source: Informe Económico, 1997 * Preliminary

But one project whose immediate hopes of development have been hit by the depressed market is the unfinished Las Camariocas nickel plant near Moa in east Cuba. This was originally being built with the help of several former Comecon countries. However, since the collapse of the Soviet bloc, Cuba has been looking for new foreign partners to complete the project. It requires an estimated $300m.

Cuba currently has no offers for this project. "Unfortunately, when the market is down, no one moves," says Mr Cazanabe.

Cuba's small gold production totalled more than 300kg in 1998, according to state media. This was believed to reflect steady output from a gold recovery project at Mantua in western Cuba in which a Canadian company, Northern Orion Explorations, has a joint venture to exploit a gold-capped copper deposit.

More than half-a-dozen foreign mining companies, the majority Canadian "juniors", have been prospecting for gold, silver and other metals at 37 concessions across the island. These include CaribGold Resources, which this month anounced a gold find in eastern Camaguey province and Holmer Gold Mines.